NEW MODERN ILLUSTRATIVE BOOKKEEPING

ELEMENTARY AND ADVANCED COURSES

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NEW

MODERN ILLUSTRATIVE BOOKKEEPING

ELEMENTARY AND ADVANCED COURSES

Based upon New Modern Illustrative Bookkeeping, Introductory Course, by Charles F. Rittenhouse, C.P.A., Professor of Accounting and Head of Accounting Department, College of Business Administration, Boston University, Boston, Mass., and upon New Modern Illustrative Bookkeeping, Advanced Course, with revised classification of accounts and financial statements by the same author.

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NEW MODERN ILLUSTRATIVE BOOKKEEPING
ELEMENTARY COURSE

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NEW MODERN ILLUSTRATIVE BOOKKEEPING
ADVANCED COURSE

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PREFACE

In the teaching of a subject like elementary Bookkeeping, where instruction in the theory and practice in the art must keep pace with each other, it is difficult under the most favorable conditions of admission and grading to secure such uniformity of progress as will render the class method most advantageous. Where the admission is irregular with pupils of a wide range of ability entering day by day, it is not possible to group pupils into classes of any considerable size. In other words, it is necessary so to arrange the work as to allow each pupil to progress according to his ability and the time he wishes to devote to the subject. New Modern Illustrative Bookkeeping is designed to meet this very definite need.

Definitions, illustrations, discussion of principles, and rules for bookkeeping procedure accompany the practice in carefully graded exercises. Those features which are found to offer difficulty to the pupil, including statements, ledger closing, notes, drafts, journal entries, etc., are given special attention and the regular work is supplemented by frequent drills. Introduction is made through the medium of the journal, because it is generally held by those who teach under the conditions already referred to that it is the best method of approach under those conditions.

In the beginning sets no business papers are used, since it would impose a double burden on the beginner — that of learning bookkeeping technique on the one hand, and the use of business papers, both new to him, on the other hand. After the student has had a chance to become well grounded in the application of the fundamental principles of Bookkeeping, business papers are introduced, both incoming and outgoing, thus giving the pupil practice in handling all the papers which would be used in the kind of business under consideration. In the later sets the use of papers is discontinued, since there does not seem to be any good reason for using so much of the pupil's time in receiving, filing, and making out routine papers, most of which are necessarily duplicates, except as to amounts, of many other similar papers.

It is believed that the book will meet the needs of the pupils, promote the efficiency of the teachers, and satisfy the requirements of the schools for which it is intended.

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TO THE STUDENT

Accuracy is the first essential of business, and accuracy is for the most part a matter of carefulness. Every mistake the student makes is traceable to lack of care or failure to follow instructions.

All mathematical work should be verified. Mistakes arise not so much because the student does not know, as because he takes for granted things of which he ought to make certain.

Next to accuracy, form is of the greatest importance to the bookkeeper, and form is meant to include penmanship, style of arrangement, and everything that goes to make an attractive piece of work.

Figures require especial attention from the bookkeeper. The context surrounding a word usually furnishes a clue to the word, but no such aid may be depended upon in figures. Each figure stands by itself. It is legible or it is not. Ability to make neat, plain, standard figures is indispensable to the bookkeeper.

Ruling is done in either red or black ink. If black ink is used, it results in some saving of time, but red ink adds to the attractiveness of the record. Use red ink unless otherwise instructed. Hold the ruler with the figures next to you. The edge away from you then stands out further at the top than at the bottom. Place the pen against this projection. The pen should be held perpendicularly. The projection on the ruler serves three purposes. It prevents the pen point from coming in contact with the ruler, and so dropping ink on the paper; it prevents blotting if the ruler is slightly moved; and it makes it possible to draw two or more lines without moving the ruler. The ruled lines should be light; the double lines should be as close together as possible. To draw double lines do not move the ruler; simply tilt the penholder slightly away from you. Hold the ruler firmly, and do not change the angle of the penholder, and the resulting lines will be parallel. Practice until you acquire speed and accuracy in ruling.

Details. — There are no trifles. Nothing is too small to be of importance. If it is a part of the work, it is an important part of the work. Follow the instructions. Nothing is good enough if it is not right. If each thing is done well, nothing will be difficult.

NEW
MODERN ILLUSTRATIVE BOOKKEEPING
ELEMENTARY COURSE

Bookkeeping consists in making a systematic record of business transactions.

The Object of Bookkeeping is to show the proprietor at any time whether his business is being conducted at a profit or loss; to indicate the sources from which the profits and losses arise; and to furnish a record of all debts owed by the business, and of all debts due and all property belonging to the business.

Double-Entry Bookkeeping provides for keeping accounts with persons, property, expenses, and allowances.

Single-Entry Bookkeeping provides for keeping accounts with persons only.

The Books Required depend upon the nature of the business, but a complete record of any business may be kept in two books — the journal and the ledger.

The Journal, if it is the only book of original entry, contains a record of all transactions in the order in which they occur.

The journal, in its simplest form, is not extensively used. Most transactions are recorded in some modification of the journal, as the cash journal, sales journal, purchases journal, etc.

The Ledger is the book of accounts. In it are summarized, under the various accounts affected, all transactions recorded in any book of original entry.

Other Terms Defined. — A BUSINESS TRANSACTION is an exchange of values between persons, such as a purchase or sale of goods, a receipt or payment of money, etc.

A COMPLETED TRANSACTION is one in which the exchange is made by both persons, as when one buys goods for cash.

An UNCOMPLETED TRANSACTION is one in which something remains to be done by one of the persons, as when one buys goods to be paid for at some future time. Such a transaction is said to be "on account."

Every transaction affects at least two accounts. The changes in the accounts are opposite in their nature, but equal in amount. If goods are bought for cash, the stock of goods is increased and the amount of cash decreased.

DEBIT and CREDIT are technical bookkeeping terms, used chiefly to denote position. By the use of these terms the effect of a transaction upon the accounts involved is indicated.

JOURNALIZING is the process of determining the debits and credits of business transactions and recording them in the journal. The debits and credits may be determined by rule, and they must always be equal. When such record, together with the business narrative, or explanation, has been made, it is called a journal entry.

In journalizing, the debits are placed to the left; the credits are placed to the right. In posting, or in transferring the entries from the journal to the ledger, the debits are likewise placed to the left; the credits, to the right.

EXERCISES FOR THE STUDENT

Ex. (*a*) On a sheet of ledger paper, rule clear across the page, in red ink, double lines exactly in the middle of the spaces between blue lines, as here illustrated ————————Blue line
═══════Double red line,
————————Blue line

Ex. (*b*) On a sheet of journal paper copy neatly the model journal shown on the following pages, following carefully the script forms of both letters and figures. Always write the current year in full, instead of 19—.

The purpose of this exercise is to familiarize the student with the form of the journal. Attention is called to the following points:

1 The complete date is written at the top of each page; otherwise, only the day is written unless the record enters a new month.

2 The technical entry consists of a debit name and a credit name; a debit money column and a credit money column, each containing the same amount.

3 The narrative gives a brief, concise history of the transaction.

4 The index figures in the folio (page) column at the extreme left indicate the page of the ledger to which the item is transferred. They are not a part of the entry at the time it is made, but are inserted at the time the transfer is made to the ledger.

5 The purchases are not itemized, since the invoice may be referred to, if necessary. Usually the system of billing used provides for a duplicate invoice of goods sold, in which case it is not necessary to record the sales items in the journal, or sales book.

Ex. (*c*) On loose ledger paper, copy carefully the model ledger shown on the pages immediately following the model journal. Make the ledger headings larger than ordinary writing. Write each one on a blue line, and center it so that the triple vertical line will come exactly in the middle of the heading. Rule a double red line in the space under each heading, except at the top of the page.

Attention is called to the following features of the ledger:

1 If the account is a personal account, the address of the person is a part of the ledger heading.

2 The year date is written in small figures at the top of the date column, and it is not repeated unless the year date of the transactions changes.

3 The entries are of the same date and for the same amount as the corresponding journal entries, but the arrangement is different and the detail is omitted.

4 The name of the month is written for the first transaction in the space provided, but the same month is not rewritten for succeeding entries.

5 There is a debit column and a credit column, and the record in each column follows the record in the journal.

6 At the left of each money column is a folio column, in which the page of the journal from which the entry was transferred is indicated. This paging, or indexing, is done in both books at the time the transfer is made, and furnishes a ready means of reference from the ledger to the journal and vice versa.

7 Personal accounts which balance are ruled with a single line.

January 1, 19-

1	Cash		3000	
1	A. H. Harper, Capital			3000
	A. H. Harper has commenced the Flour and Grain business at 346 Elm Street investing $3000			
	2			
1	General Expenses		75	
1	Cash			75
	Gave J. M. Hastings cash in payment of store rent for Jan.			
	3			
1	Purchases		780	
3	A. H. Roe & Co.			780
	Bot. from A. H. Roe & Co. Invoice No. 1 Terms: Cash			
	4			
3	A. H. Roe & Co.		780	
1	Cash			780
	Gave A. H. Roe & Co. cash for Invoice No. 1			
	4			
2	W. J. Leach		450	
1	Sales			450
	50 bbl Flour @ 9			
	Terms: Cash			
1	Cash		450	
2	W. J. Leach			450
	Received payment for our bill of Jan. 4			

January 5, 19-

2	J. B. Allen		225	
1	Sales			225
	25 bbl Flour	9.00		
	Terms: On account			
	8			
1	Purchases		198	
3	J. Grant & Co.			198
	Invoice No. 2 dated Jan. 7			
	Terms: On a/c 30 days			
	9			
2	A. B. Frye		338	
1	Sales			338
	25 bbl Flour	9.20		
	150 bu. Oats	.72		
	Terms: Note at 20 days			
	10			
2	Notes Receivable		338	
2	A. B. Frye			338
	Received 20-day note dated			
	Jan. 9 for invoice of that date			
	11			
1	Purchases		571	
3	Garland & Co.			571
	Invoice No. 3 dated Jan. 9			
	Terms: Note at 45 days			
	11			
3	Garland & Co.		571	
2	Notes Payable			571
	Gave our note at 45 days			
	for Invoice No. 3			

January 13, 19— 3

1	Cash		100	
2	J. B. Allen			100
	Received cash on account			
3	J. Grant & Co		198	
1	Cash			198
	Paid Invoice No. 2			
	20			
1	Purchases		820	
3	B. W. Keene			820
	Invoice No. 4 dated Jan. 19.			
	Terms: Note at 2 mo			
	20			
3	B. W. Keene		820	
2	Notes Payable			820
	Gave our 2 mo. note			
	dated today for Invoice No. 4			
	25			
2	J. B. Allen		237 50	
1	Sales			237 50
	25 bbl. Flour	950		
	Terms: On ap			
	25			
1	General Expenses		60	
1	Cash			60
	Paid Clerk's wages to date			

1

A. H. Harper, Capital

				19-			
				Jan.	1	1	3000

Cash

19-						19-			
Jan.	1		1	3000		Jan.	2	1	75
	5	3550 / 113 / 2437	1	450			4	1	780
	13		3	1000			13	3	198
							25	3	1613

Purchases

19-					
Jan.	3	1	780		
	8	2	198		
	11	2	571		
	20	2	820		
Dec.	31				

Sales

				19-	
				Jan.	4
					5
					9
					25

1	450	
2	225	
3	338	
3	2375	50

General Expenses

19-					
Jan.	2	1	75		
	25	3	1600		

Notes Receivable

2.

19– Jan. 10		2	338				

Notes Payable

				19– Jan. 11		2	571
				20		3	820

J. B. Allen

325 Main St.

19– Jan. 5		2	225	19– Jan. 13	City	3	100
25		3	237 50				

W. J. Leach

275 Market St.

19– Jan. 4		1	450	19– Jan. 5	City	1	450

A. B. Frye

126 Exchange St.

19– Jan. 9		2	338	19– Jan. 10	City	2	338

3

A. H. Roe & Co.

425 Lake St.

19- Jan. 4	1	780	19- Jan. 3	City 1	180

J. Grant & Co.

289 Monroe St.

19- Jan. 13	3	198	19- Jan. 8	City 2	198

Garland & Co.

116 Fourth St.

19- Jan. 11	2	571	19- Jan. 11	City 2	571

B. W. Keene

375 Broad St.

19- Jan. 20	3	820	19- Jan. 20	City 3	820

BUSINESS NARRATIVE — JANUARY

Beginning on the first page of Blank No. 1, make the journal entries for the following transactions, following the forms shown in the model journal. (Page 9.)

No. 1 January 1, 19— I (student's name) engage in the Flour and Grain business, at 245 Main Street, investing cash, $4000.

Bookkeeping Procedure 1. *— Debit Cash with all cash received.*

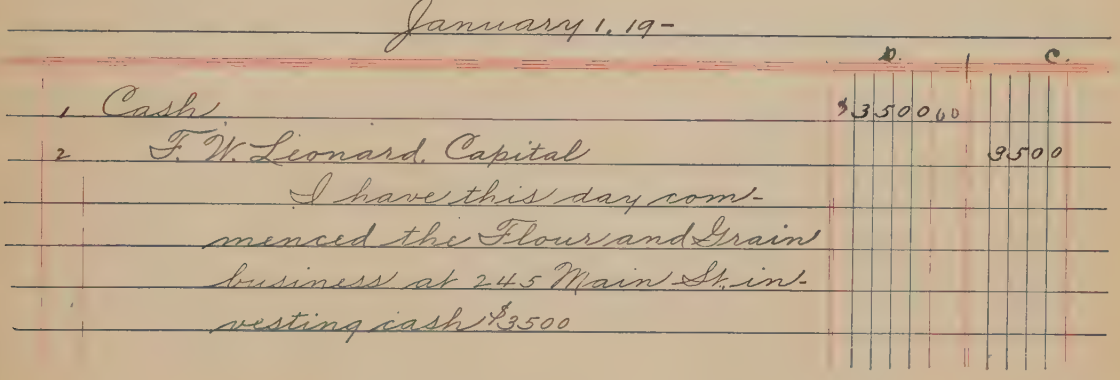
B. P.[1] ***2.*** *— Credit PROPRIETOR, CAPITAL, with his original investment and all subsequent investments.*

Write January 1 and the current year on the blue line at the top of the first page in the journal.

Determine what account is to be debited. Cash has been received, hence Cash should be debited.

The Proprietor has invested $4000, hence his account should be credited.

In the space provided for that purpose, write a narrative of the transaction. The correct form of the entry is illustrated below.


January 1, 19-
D.
C.
1 Cash
$3500 00
2 F. W. Leonard, Capital
3500 00
I have this day commenced the Flour and Grain business at 245 Main St. investing cash $3500

The journal entry may be read thus: "Cash to F. W. Leonard, $3500." The name of the account debited should be read first, followed by the word "to" and the name of the account credited. The amount is named but once.

No. 2 January 2 Paid J. C. Smith $75 for rent of store for January.

B. P. 3. *— Debit GENERAL EXPENSES with all expenses of the business, except those for which a separate account is kept.*

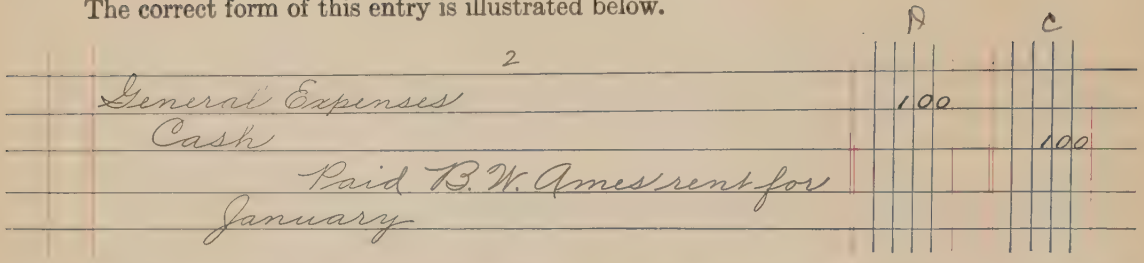
The number of expense accounts, each with a different title, depends upon the size and nature of the business, and the amount of detail which it is proposed to show. In this set all the expenses of the business are charged to General Expenses.

B. P. 4. *— Credit CASH with all cash paid.*

After each entry, leave one line blank, except that the day of the month should be written in the center of this line. Upon beginning a new month, or starting a new page, the complete date should be written.

[1] The initials "B. P." will be used in all further references to "Bookkeeping Procedure."

The correct form of this entry is illustrated below.



No. 3 January 2 Bought of Scranton & Wetmore books and stationery for office use, for which I paid cash, $15.

Debit General Expenses (B. P. 3); credit Cash (B. P. 4).

No. 4 January 3 Bought of the Upton Coal Co., for cash, for use in store, 5 tons of coal at $5.50 per ton; total, $27.50.

As the coal is to be used for fuel, in carrying on the business, it is an expense. Make entry similar to those for transactions Nos. 2 and 3.

No. 5 January 3 Paid $10.50 for 500 stamped envelopes.

No. 6 January 4 Bought of P. D. Hamlin merchandise as per his invoice of January 3, $530. Terms: Cash.

Goods bought to be sold are called "Merchandise." Incoming merchandise is entered under Purchases; outgoing merchandise is entered under Sales.

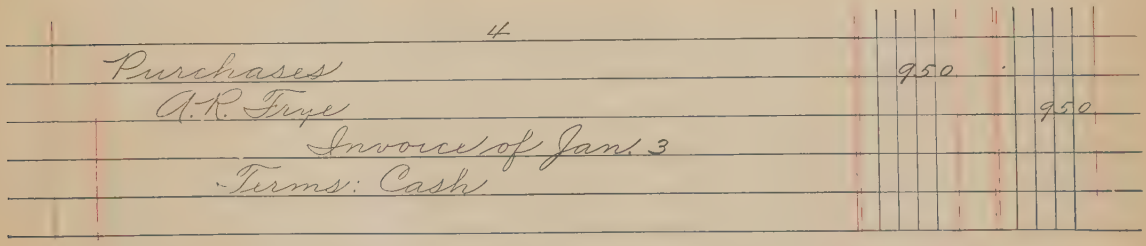
In a wholesale business a transaction, the terms of which are "Cash," is not quite like a cash transaction in a retail store, where the goods are purchased and the money is paid over the counter at the time the sale is made. Wholesale orders are taken by traveling salesmen, or received by mail or telephone, so that even though the terms are Cash, the money is not necessarily received at the time of the sale; and, if cash is not received at the time the goods are shipped, the buyer's account is charged for their value.

B. P. 5. — *Debit* PURCHASES *with the purchase price of all merchandise purchased.*

B. P. 6. — *Credit a person with the purchase price of merchandise purchased from him.*

If the purchase is for "spot" cash, or cash on delivery, Purchases may be debited and Cash credited, instead of running the transaction through the personal account.

The correct form of this entry is illustrated below.



No. 7 January 4 Bought of Charles A. Hubbard invoice of merchandise, dated Jan. 3, $300. Terms: Cash.

This transaction is similar to the preceding one. (B. P. 5 and 6.)

No. 8 January 4 Bought of M. F. Lynch invoice of merchandise, dated Jan. 3, $175. Terms: Cash. (B. P. 5 and 6.)

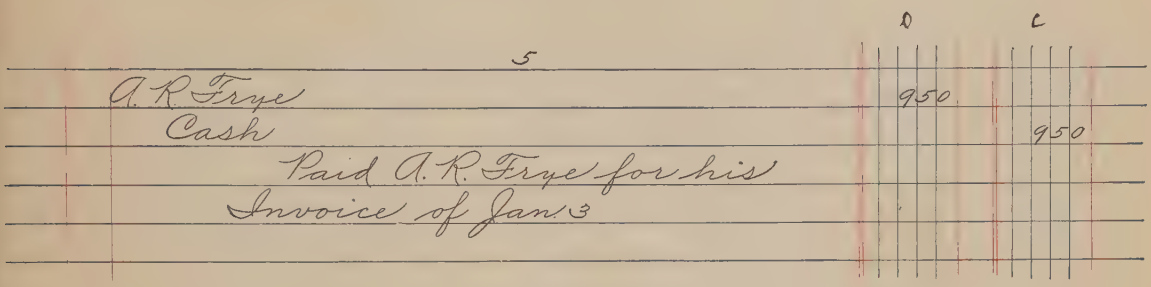
No. 9 January 4 Bought of H. P. Dennis & Co. invoice of merchandise, dated Jan. 3, $255. Terms: Cash.

No. 10 January 5 Paid P. D. Hamlin for his invoice of Jan. 3, $530.

B. P. 7. *— Debit a person with cash or notes given to him on account*

Although the terms of the purchase were cash, P. D. Hamlin was credited for the amount, and during the time which elapsed between the purchase of the goods and the payment, the transaction was on account.

The correct form for the entry is illustrated below.



The student may now observe that the net result of the entries for the transaction with P. D. Hamlin is a debit to Purchases and a credit to Cash. The credit to P. D. Hamlin on the fourth is canceled by the debit to P. D. Hamlin on the fifth. The record, however, is more complete than if the transaction had been disposed of without using the personal account.

No. 11 January 5 Paid Charles A. Hubbard for his invoice of Jan. 3, $300.

This transaction is similar to the preceding one. (B. P. 7 and 4.)

No. 12 January 5 Paid M. F. Lynch for his invoice of January 3, $175.

No. 13 January 5 Paid H. P. Dennis & Co. for their invoice of January 3, $255.

No. 14 January 5 Sold Wilson Bros. 50 bu. Rye at $1.20 per bu., 25 bbl. Flour at $9 per bbl.; total, $285. Terms: Cash.

"Cash" terms, as already explained, do not usually mean that the goods are paid for at the time the sale is made. Some time usually elapses between the sale and the payment. In the meantime the goods are actually "on account."

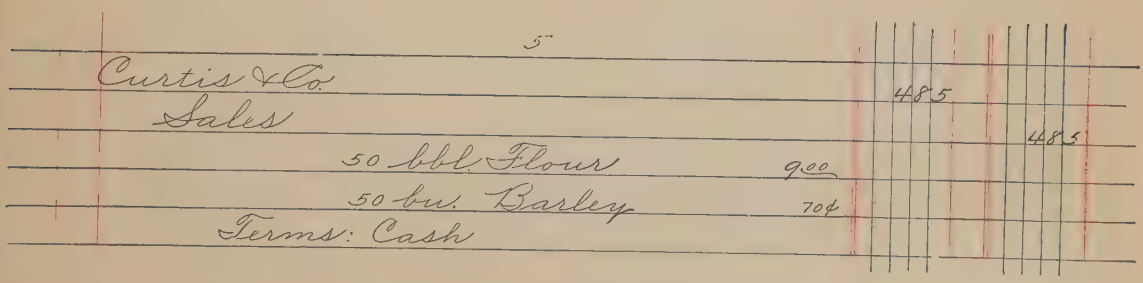
B. P. 8. *— Debit a person with the sale price of merchandise sold to him.*

B. P. 9. *— Credit* SALES *with the sale price of all merchandise sold.*

If the sale is for "spot" cash, it may be handled without passing through the personal account, but even then, if the buyer is, or is likely to become a regular customer, it is better to have his account show all transactions with him.

Assuming that no other record is made of the items sold, they will be recorded in the journal.

The correct form of the entry is illustrated below.



No. 15 January 6 Sold H. A. Harvey 200 bu. Oats at 70¢ per bu.; total, $140. Terms: Cash.

The transaction is similar to the preceding one. (B. P. 8 and 9.)

No. 16 January 6 Sold W. D. Menter 100 bu. Corn at 80¢ per bu.; total, $80. Terms: Cash.

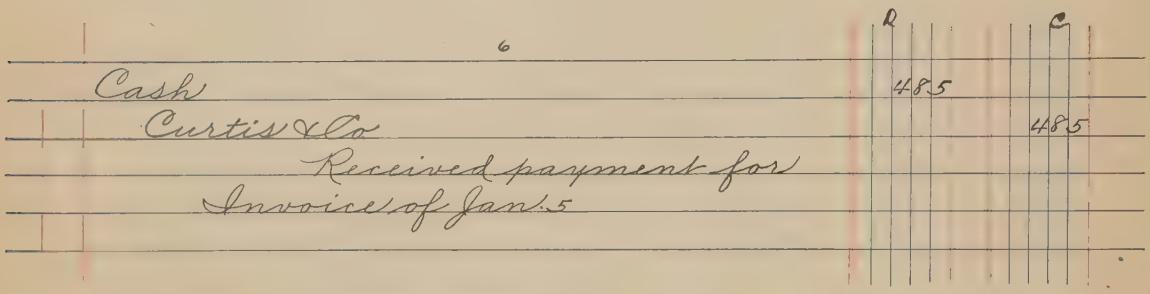
No. 17 January 6 Sold J. B. Hamill 100 bu. Oats at 72¢ per bu., 50 bu. Corn at 80¢ per bu.; total, $112.

No. 18 January 6 Wilson Bros. pay your invoice of Jan. 5, $285.

B. P. 10. — *Credit a person with cash or notes received from him on account.*

What account should be debited? Cash.

The correct form for the entry is illustrated below.



No. 19 January 6 Received payment from H. A. Harvey for invoice of this date, $140.

The transaction is similar to the preceding one.

No. 20 January 6 Received payment from W. D. Menter for invoice of this date, $80.

No. 21 January 6 Received payment from J. B. Hamill for invoice of this date, $112.

Posting is the process of transferring debit and credit entries from the journal or other books of original entry to appropriate accounts in the ledger.

In the journal, the transactions are entered as they occur, and no attempt is made to group similar items. In the ledger, although the transactions are entered in the order of their occurrence, they are primarily arranged in groups of similar items called accounts.

An Account is a collection of similar items grouped under an appropriate heading.

Accounts may be classified, with regard to their titles, as follows:

1 Accounts with persons.

2 Accounts with cash, notes, and other mediums of exchange.

3 Accounts with property.

4 Accounts with income or profit, expenses, allowances, and services.

Personal accounts are those kept with individuals, firms, and corporations with which the business has dealings.

Personal accounts are of two classes; namely, those with debtors and those with creditors. A debtor is one who owes, or who has received credit. A creditor is one who is owed, or who has given credit.

Accounts with debtors, taken collectively, are called Accounts Receivable, because they indicate the amount which is to be received from persons.

Accounts with creditors, taken collectively, are called Accounts Payable, because they indicate the amount which is to be paid to persons.

When the posting is completed, all the debit cash items in the journal will appear on the debit side of the Cash account in the ledger, and all the credit cash items in the journal will

appear on the credit side of the Cash account in the ledger. All purchase items in the journal will appear on the debit side of the Purchases account in the ledger, and all sales items in the journal will appear on the credit side of the Sales account in the ledger. A similar condition will result in all other accounts of the business.

There is no stated time at which posting should be done, but it must be completed at the close of the month in order that the statements may be made up.

Great care should be used to see that all debits are transferred to the debit side of the proper accounts in the ledger, and that all credits are transferred to the credit side of the proper accounts in the ledger. It is a common error to post a debit item to the credit side, or a credit item to the debit side of an account, especially when debits and credits are posted alternately.

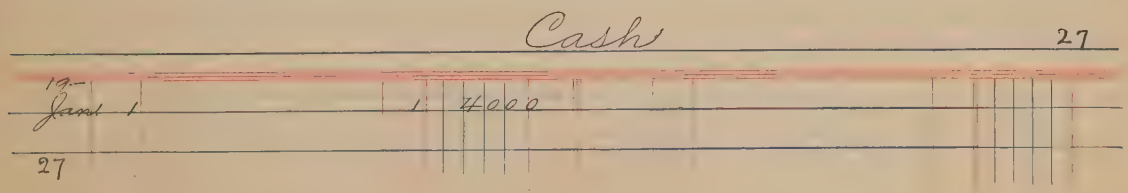
It is preferable to post all debits first and then all credits. As by this method the bookkeeper is posting to only one side of the ledger at any time, he reduces the danger of posting to the wrong side of an account.

Opening Ledger Accounts. — Examine the model ledger on page 12, and notice the form and arrangement of the accounts. In Blank No. 2, following the pages reserved for the index, open the following accounts, putting four on each page.

Cash
Wilson Brothers, 215 Willow St., City
H. A. Harvey, 175 Market St., "
W. D. Menter, 316 State St., "
J. B. Hamill, 75 Third Ave., "
P. D. Hamlin, 228 Brady St., "
Charles A. Hubbard, 457 Summer St., "
M. F. Lynch, 259 Ward St., "
H. P. Dennis, 86 Front St., "
Student, Capital
Sales
Purchases
General Expenses

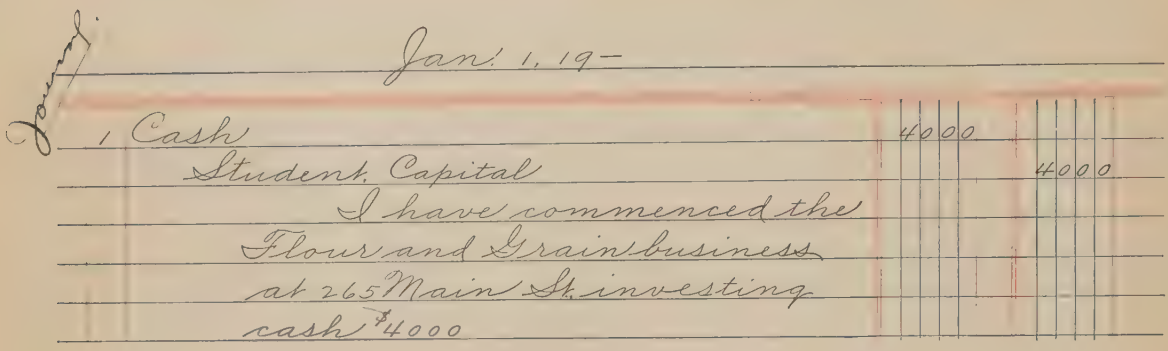
Rule a double red line under the ledger headings, except those which come at the top of a page. Number the journal and ledger pages. (The ledger page following the index pages should be numbered 1.)

Instructions for Posting. — 1 The first debit item in the journal is Cash, $4000. Turn to the Cash account in the ledger and write the amount, 4000 (use no dollar signs), on the debit side of this account. Write the number (1) of the journal page from which the amount is posted in the folio column of the ledger, and write the date of the transaction, as shown by the journal entry (Jan. 1) in the date column of the ledger. Write the current year above the first entry in the date column, as directed in Exercise 3. The following illustration shows the correct form for the ledger entry.



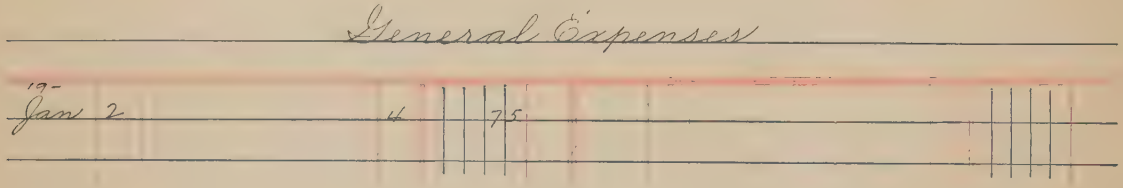
Enter the number of the ledger page containing the Cash.

In the folio column of the journal, to the left of the word "Cash," write the ledger page (1) to which the item is posted, as in the illustration.



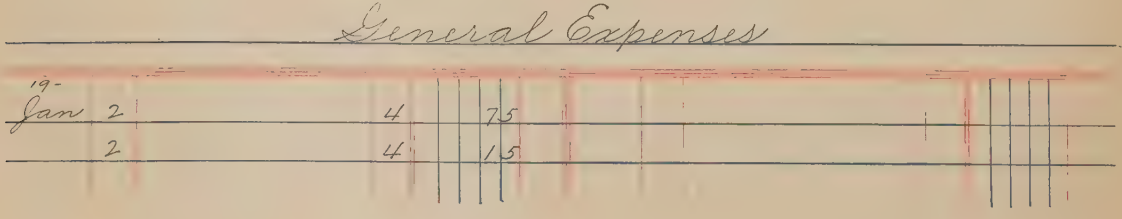
Paging, or postmarking, is important because it is an indication that the posting has been done and because it facilitates reference from one book to the other. Never omit it.

2 The next debit item in the journal is General Expenses, $75. Turn to the General Expenses account in the ledger and write 75 in the amount column on the debit side. Write the journal page number (1) in the folio column, and the date of the transaction (Jan. 2) in the date column. Always enter the year at the top of the date column. Note the illustration.



Write the ledger page number (4) in the folio column of the journal. See illustration of journal under 1.

3 The next debit item in the journal is General Expenses. Turn again to the debit side of the General Expenses account in the ledger and enter the amount in the money column. Enter the journal page number and the date. The month need not be rewritten. The following illustration shows the General Expenses account as it should now appear in the ledger.

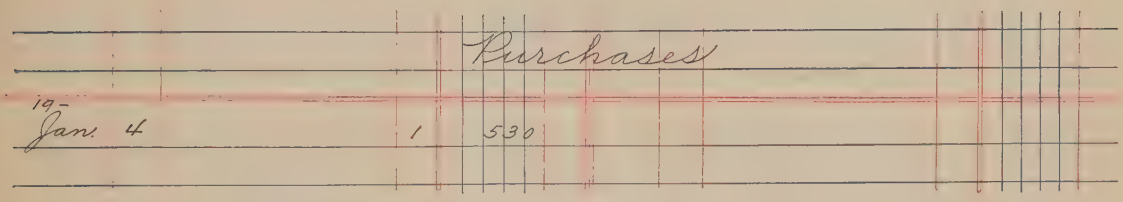


Write the ledger page number in the folio column of the journal.

4 The next debit item in the journal is General Expenses, $27.50. Post this item, following previous instructions.

5 The next debit item in the journal is General Expenses $10.50. Post this item.

6 The next debit item is Purchases, $530. Turn to the Purchases account in the ledger and post this item, following the usual routine. Do not omit any feature. Note the following illustration.



7 Post the next three items to the debit side of the Purchases account.

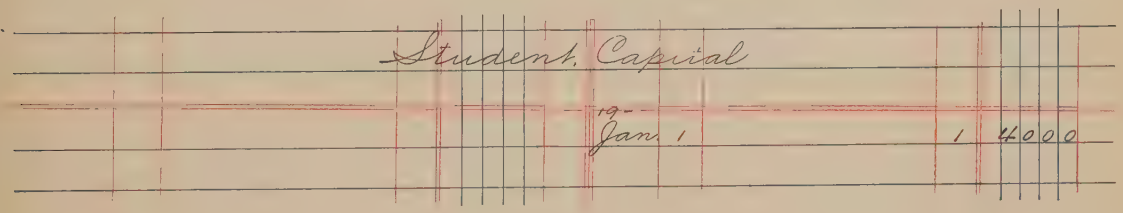
8 The tenth debit item in the journal is P. D. Hamlin, $530. Post this item to Hamlin's account in the ledger.

9 Post the next three debit items to the debit side of the respective personal accounts.

10 Post the next four debit items to the debit side of the accounts named — Wilson Bros., H. A. Harvey, W. D. Menter, and J. B. Hamill.

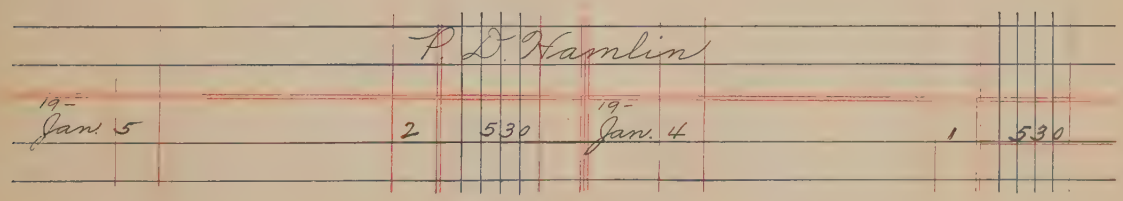
11 Post the next four debit items to the debit side of the Cash account.

12 The first credit item in the journal is Student, Capital, $4000. The credit posting is exactly the same as the debit posting, except that the items must be carried to the credit side. The following illustration shows how Student's Capital account should appear after the entry is posted.



13 Post the next four items to the credit side of the Cash account.

14 The next credit item is P. D. Hamlin, $530. When this item is posted to the credit side of P. D. Hamlin's account in the ledger, the account will have an equal amount on each side; that is, it will balance. The account should be ruled as shown in the following illustration.



When a personal account is ruled, it indicates that all transactions recorded above the ruled lines have been completed.

15 As each of the next three credit items is posted, a personal account will balance. Rule as instructed above.

16 Post the next four credit items to the credit side of the Cash account. Do not omit dates and index pages.

17 Post the next four credit items to the credit side of Sales account.

18 As each of the remaining four credit items is posted, a personal account will balance. Rule as instructed in No. 14.

All the debit items in the journal have now been transferred to the debit side of the ledger; and all the credit items, to the credit side. As the amounts in the debit column and credit column of the journal are equal, it follows, if no mistake has been made in posting, that the total debits and total credits of the ledger must also be equal. To test the accuracy of the debit and credit posting, a trial balance is taken.

THE TRIAL BALANCE

The *balance* of an account is the difference between the debit side and the credit side. If the debit side is the larger, the account shows a debit balance. If the credit side is the larger, the account shows a credit balance.

An account which shows a balance is technically an open account.

A *trial balance* is a statement exhibiting either the total debits and total credits or the balances of all the open accounts in the ledger. If the totals are used, it is called a trial balance of totals. If the differences are used, it is called a trial balance of balances. The latter form is generally more desirable, because in the statements which follow balances must be used.

At the top of a sheet of journal paper write the words *trial balance*, and the proper date. Under this, at the left-hand side of the sheet write the names of all the open accounts that appear in your ledger, with the ledger pages in the folio column. Do not include the personal accounts, because they are closed. The following illustrates the form.

Trial Balance, Jan. 6, 19–

1	Cash	
3	A. H. Harper, Capital	
3	Purchases	
3	Sales	
4	General Expenses	

The names of the accounts in your trial balance must be the names of the accounts in your ledger.

The first account in your trial balance is the Cash account. Add the several items on the debit side of the Cash account and write the sum in very small, light pencil figures directly under and close to the last debit item.

Add the credit items of the Cash account in the same way, writing the total in very small pencil figures close under the last credit item.

The following illustrates the form of a Cash account properly footed; the amounts and other particulars are different from those shown in the Student's Cash account.

Cash

19–				19–			
Jan. 1		1	400 00	Jan. 3			200
4		1	225		5		75
5			600		10		345 60
8			35				20
9			150				
			50 10 0				

Find the balance of the Cash account by taking the difference between the debit total and the credit total. Transfer the debit balance ($3229) to the debit column of the trial balance.

The next account in the trial balance is Student's Capital account. Since there are no debits in this account and but one credit, the latter is transferred to the credit column of the trial balance, opposite Student's name.

Add the items in the Purchases account. Write the total in small figures close under the last entry. Transfer the total to the debit column of the trial balance, opposite the word Purchases.

Add the Sales account, and transfer the total to the credit column of the trial balance, opposite the word Sales.

Add the General Expenses account, and transfer the total to the debit column of the trial balance.

Add the debit and credit columns of the trial balance. The totals should be equal. If they are not, it is evident that an error has been made, and the work must be reviewed until the error is found. If an error is made in a pencil footing, it may be erased, but if it is written in ink, erasing is not permissible. A correction may be made by drawing a red-ink line through the wrong entry and writing the correct amount above it.

The following is the form of a trial balance containing the same number of items as the Student's trial balance. The amounts are different.

Trial Balance, Jan. 6, 19–

1	Cash	3600 50	
3	Student, Capital		4500
3	Sales		785 50
3	Purchases	1475 60	
4	General Expenses	209 40	
		5285 50	5285 50

If the footings of the trial balance are equal, write them in ink, rule the trial balance as in the above illustration, and present it with your journal and ledger to your teacher for approval. After the work has been approved, copy the trial balance in Blank No. 1 in the space provided for trial balances, as indicated on the front cover.

REVIEW QUESTIONS

1 Define bookkeeping. Define double-entry bookkeeping.
2 What books are required to make a complete record of any business?
3 What should the journal contain?
4 What should the ledger contain?
5 What is a business transaction?
6 Define journalizing.
7 What is a completed transaction?
8 Why should the debits and credits of every journal entry be equal?
9 What does "on account" mean?
10 When should Cash be debited?
11 What is an account?
12 When should General Expenses be debited?
13 What items should be charged to General Expenses account?
14 What are the two leading points to be considered in writing the explanatory record in your journal entries?
15 What is merchandise?
16 When should Purchases be debited?
17 When should Sales be credited?
18 What do the words debit and credit mean?
19 Define posting. When should posting be done?
20 How may accounts be classified with regard to their titles?
21 What is the object of a trial balance?
22 How often should a trial balance be taken?
23 What names should appear on a trial balance?
24 Why should the debit and credit columns of a trial balance show equal footings?
25 Does a trial balance prove the work to be correct; if not, what does it prove?
26 What is the purpose of pencil footings in the ledger?
27 What is an incomplete transaction?

BUSINESS NARRATIVE — FEBRUARY

Beginning on the first blank page of Blank No. 1, make the journal entries required for the following transactions:

No. 1 February 1, 19— I (Student's name) engage in the Flour and Grain business, at 360 Market Street, investing cash, $2500. (B. P. 1 and 2.)
Write the complete date at the top of the page.

No. 2 February 2 Paid Henry Jones rent for store, two months in advance, cash, $100.

No. 3 February 3 Bought of R. C. Thompson invoice of merchandise, dated Feb. 2, $800. Terms: Cash. (B. P. 5 and 6.)
For form of entry similar to this, see page 16.

No. 4 February 5 Sold A. H. Warren 25 bbl. Flour at $9 per bbl., $225. Terms: Cash. (B. P. 8 and 9.)

No. 5 February 5 Paid R. C. Thompson for his invoice of Feb. 3, $800. (B. P. 7 and 8.)

No. 6 February 6 Bought of Winter Bros. invoice of merchandise, dated Feb. 5, $210. Terms: Cash.
Entry similar to that for transaction No. 3.

No. 7 February 6 Received cash from A. H. Warren, in payment of your invoice of Feb. 4, $225. (B. P. 1 and 10.)

No. 8 February 7 Sold Wm. Archer & Co. 25 bbl. Flour at $9 per bbl., 100 bu. Corn at 80¢ per bu.; total $305. Terms: Cash.
Entry similar to that for transaction No. 4.

No. 9 February 7 Paid Winter Bros. for their invoice of Feb. 5, $210.

No. 10 February 8 Bought of Arthur McMillan invoice of merchandise, dated Feb. 7, $786. Terms: Cash.

No. 11 February 8 Received payment from William Archer & Co. for your invoice of Feb. 7, $305.

No. 12 February 9 Paid cash for clerk hire, $25.

No. 13 February 9 Paid Arthur McMillan for his invoice of Feb. 7, $786.

No. 14 February 10 Sold E. H. French & Co. 30 bbl. Flour at $8.75 per bbl., 50 bu. Corn at 88¢ per bu.; total $306.50. Terms: Cash.

No. 15 February 12 Bought of John C. Cornell invoice of merchandise, dated Feb. 12, $110. Terms: Cash.

No. 16 February 12 Received payment from E. H. French & Co. for your invoice of Feb. 10, $306.50.

No. 17 February 12 Paid John C. Cornell for his invoice of this date, $110.

No. 18 Preparatory to posting the entries already recorded in February, open ledger accounts under the headings given below. The list includes all accounts which are to be used for February and March. Pay attention to details. Follow instructions carefully.

LEDGER ACCOUNTS FOR FEBRUARY AND MARCH

Cash 1 page
Notes Receivable ½ "
Personal Accounts Receivable as follows, allowing ¼ page to each account:

E. B. Adams, 117 Main St.
William Archer & Co., 125 Park Avenue
S. A. Dodge & Co., Market Square
Emerson & Sons, 96 Exchange St.
E. H. French & Co., 452 Third Avenue
J. B. Fulton, 75 Brady St.
F. W. Garland, 83 Howard St.
Roberts Brothers, 128 Market St.
W. A. Scott, 17 Monroe St.
J. S. Sumner, 75 First Avenue
A. H. Warren, 378 Hamilton St.
Weston & Hill, 289 Pine St.

Personal Accounts Payable as follows, allowing ¼ page to each account:

H. S. Clough & Co., 165 Broad St.
J. C. Cornell, 78 Harper St.
Charles Hill & Co., 119 Seventh Avenue
Kidder & Hill, 49 Fort St.
A. J. Lane, 265 Murray St.
Arthur McMillan, 79 Thompson St.
Rice, Miller & Co., 368 Second Avenue
F. A. Smith & Co., 924 Seventh St.
W. H. Stevens, 76 Broadway
R. C. Thompson, 113 Howard Avenue
Warner & Freeman, 765 Grand Avenue
Winter Brothers, 123 Liberty St.

Other accounts as follows:

Notes Payable	½ page	Purchases	1 page
Student, Capital	½ "	General Expenses	½ "
Student, Personal	½ "	Freight and Cartage	½ "
Sales	1 "	Profit and Loss	½ "

No. 19 Post the February entries to the ledger. Use great care as to details. Enter the amount in the right account, on the right side, and for the right sum. Index the posting accurately, both in the journal and in the ledger. If you do everything well, nothing will be difficult. Follow the order of posting used for the January entries — 1, enter the amount in the ledger money column; 2, enter the journal page in the ledger folio column; 3, enter the date in the ledger date column, always writing the current year at the top; 4, enter the ledger page in the journal folio column.

No. 20 As the posting proceeds, it will be found that the accounts of R. C. Thompson, A. H. Warren, Winter Bros., Wm. Archer & Co., Arthur McMillan, E. H. French & Co., and John C. Cornell balance. Rule them as instructed. (See model ledger for form.)

No. 21 Take a trial balance from your ledger. It will be similar in form to the trial balance for January.

No. 22 Submit the journal, ledger, and trial balance to the teacher for inspection and approval.

No. 23 After the trial balance has been approved, copy it in Blank No. 1, following the trial balance for January.

FEBRUARY BUSINESS, CONTINUED

No. 24 February 14 Bought of A. J. Lane invoice dated Feb. 13, $82.50. Terms: On account 30 days.

The fact that the buyer has 30 days in which to pay for the goods does not change the form of the entry. As already noted, in a wholesale business, even when the terms are Cash, the transaction is usually on account for a short time. In this transaction, while the invoice may be paid at any time, the buyer agrees to pay it within the time stated. (B. P. 5 and 6.)

No. 25 February 15 Bought of W. H. Stevens invoice of this date, $198. Terms: On account.

No. 26 February 15 Bought of F. A. Smith & Co. invoice dated Feb. 14, $165. Terms: On account 10 days.

No. 27 February 16 Sold W. A. Scott 100 bu. Oats at 72¢ per bu., $72. Terms: On account 10 days. (B. P. 8 and 9.)

No. 28 February 17 Sold S. A. Dodge & Co. 25 bbl. Flour at $9.50 per bbl., $237.50. Terms: On account 60 days.

No. 29 February 17 Sold J. S. Sumner 250 bu. Rye at $1.20 per bu., 250 bu. Oats at 72¢ per bu., 300 bu. Corn at 80¢ per bu.; total, $720. Terms: On account.

No. 30 February 19 Sold E. H. French & Co. 25 bbl. Flour at $9.20 per bbl., 100 bu. Oats at 72¢ per bu., 50 bu. Corn at 80¢ per bu.; total, $342. Terms: On account 10 days.

No. 31 February 20 Sold E. B. Adams 200 bu. Oats at 76¢ per bu., $152. Terms: Cash.

No. 32 February 23 Bought of Rice, Miller & Co., invoice dated Feb. 22, $352.50. Terms: On account.

No. 33 February 24 Sold Roberts Bros. 100 bu. Rye at $1.20 per bu., $120. Terms: Cash.

No. 34 February 25 Received from W. A. Scott cash, in payment of your invoice of Feb. 16, $72. (B. P. 1 and 10.)

No. 35 February 25 Received from E. B. Adams cash, in payment of your invoice of Feb. 20, $152.

No. 36 February 25 Received from Roberts Bros. cash, in payment of your invoice of Feb. 24, $120.

No. 37 February 26 Received cash of J. S. Sumner, to apply on account of your invoice of Feb. 17, $100.

The transaction is similar to the preceding one, but J. S. Sumner pays only a part of the amount which he owes.

No. 38 February 27 Paid A. J. Lane for his invoice of Feb. 13, $82.50. (B. P. 7 and 4.)

No. 39 February 28 Paid W. H. Stevens $100, to apply on account of his invoice of Feb. 15.

No. 40 February 28 Received cash of E. H. French & Co., in payment of your invoice of the 19th inst., $342.

No. 41 February 28 Sold Emerson & Sons, 50 bu. Corn at 80¢ per bu., 30 bbl. Flour at $9 per bbl., 50 bu. Oats at 70¢ per bu.; total, $345. Terms: On account.

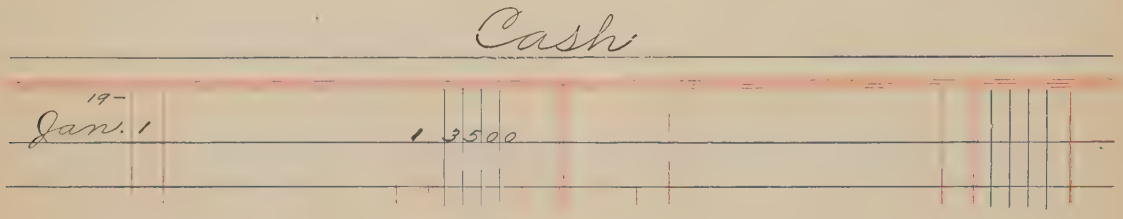
No. 42 February 28 Paid cash for postage and advertising, $12. (B. P. 3 and 4.)

No. 43 Post the entries from the journal to the ledger, according to instructions previously given. The necessary accounts are already opened in the ledger. Post to the open accounts, Cash, Purchases, Sales, and General Expenses exactly as though no trial balance had been taken during the month. Skip no lines on account of the pencil figures. Leave the pencil figures in the accounts, and when the trial balance for the completed month's work is taken, add the pencil figures with the items which follow.

CHECKING

Checking is the process of verifying the posting, in order to detect and correct any errors which may have been made.

No. 44 Check the posting for February. Use a sharp-pointed pencil. In the first entry for the month, Cash is debited $2500. Turn to the cash account in the ledger and place a small check mark (√), as illustrated in the following form, on the vertical double line to the left of the amount, 2500.

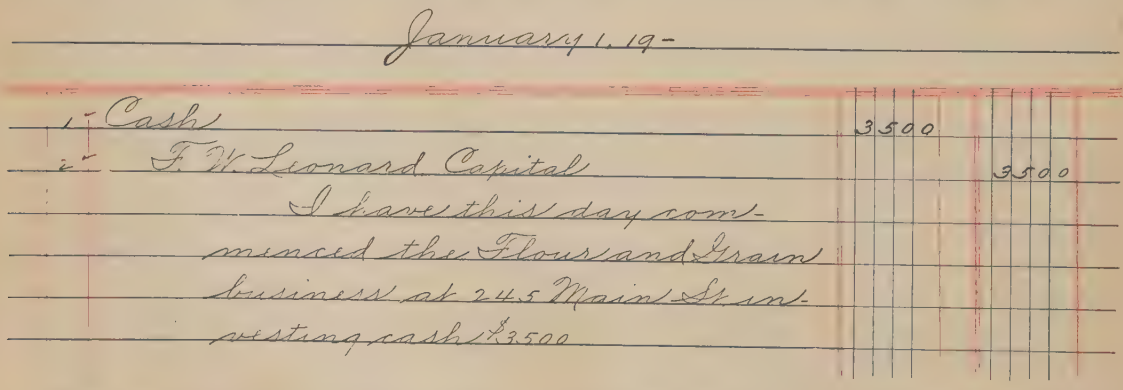


In the journal place a similar check mark on the line to the left of the word Cash, as illustrated by the first check mark in the form below.

Make the check mark very small and always on the same vertical line.

Check all the debit items. Find the correct amount in the ledger and check it there before checking it in the journal. Inspect each amount to see that it has been written correctly, as errors are often made by transposing or misplacing figures, thus: $125 for $152; $1.50 for $150.

After checking all the debits, proceed in like manner to check all the credit items. Note the location of the check mark for the first credit item in the journal, as illustrated below.


January 1, 19–
1 Cash 3500
2 F. W. Leonard, Capital 3500
I have this day commenced the Flour and Grain business at 245 Main St. investing cash $3500

If an item has been omitted, or posted to the wrong account, or to the wrong side of an account, it will be observed in checking. If an amount has been posted twice, it will appear once in the ledger unchecked, and thus the error will be detected.

If the student finds no error, he may conclude that checking is a waste of time, or that it should not be undertaken unless an error occurs in the trial balance. That this conclusion is unwarranted, the following facts will show.

1 An error in posting may or may not affect the equality of debits and credits. For instance, if a debit of $300 is posted to W. H. Stevens' account when it should have been posted to Rice, Miller & Co.'s account, the equality of debits and credits is not affected, and yet a serious error in posting has been made.

2 Posting is usually done from day to day, when there is time both for posting and checking. If the bookkeeper does not check the posting as he goes along, he is likely to find that he must check it all at a time when he is rushed.

3 In the interest of accuracy the posting should be verified.

No. 45 Rule all ledger accounts which balance. The accounts to be ruled at this time are E. B. Adams, Roberts Bros., W. A. Scott, E. H. French & Co., and A. J. Lane.

No. 46 Foot the ledger accounts in small pencil figures, and take a trial balance. The accounts which are ruled will be omitted from the trial balance. The debits and credits of these accounts are equal, and their omission will not affect the equality of the debits and credits as a whole.

Trial balances are cumulative; that is, each succeeding trial balance includes everything in every open account, except such equal amounts as have been ruled off in the account. The trial balance for Feb. 28 will be a trial balance for the whole month, not for the last half of the month.

No. 47 Submit the journal, ledger, and trial balance to the teacher for approval. After the trial balance has been approved, copy it in Blank No. 1, following the trial balance of Feb. 12.

ACCOUNTS INTRODUCED IN MARCH

Notes Receivable and Notes Payable. — A negotiable promissory note is an unconditional promise in writing made by one person to another, signed by the maker, engaging to pay on demand, or at a fixed or determinable future time, a sum certain in money to order or to bearer. (Negotiable Instruments Law.)

It will be seen from the above definition that there are two original parties to a note. The one who promises to pay is called the Maker; the one to whom the promise is made is called the Payee.

An instrument is negotiated when it is transferred from one person to another in such manner as to constitute the transferee the holder thereof. If payable to bearer, it is negotiated by delivery; if payable to order, it is negotiated by the indorsement of the holder completed by delivery. (Negotiable Instruments Law.)

One who indorses a note is called the indorser, or transferrer; the one to whom it is negotiated is called the indorsee, or transferee.

An indorsement is written on the back across the left-hand end of the paper.

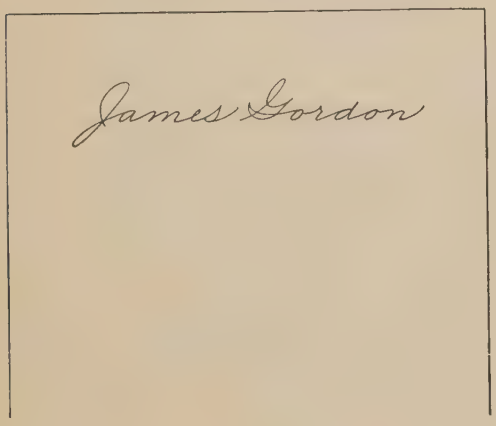
An indorsement may be either special or in blank; and it may also be either restrictive or qualified, or conditional. (Negotiable Instruments Law.)

An instrument is indorsed in blank when the name only of the indorser is signed. Such indorsement makes the instrument payable to bearer; hence, the blank indorsement, although very common, is not very safe, and should not be used if the paper is to be delivered by mail or by messenger.

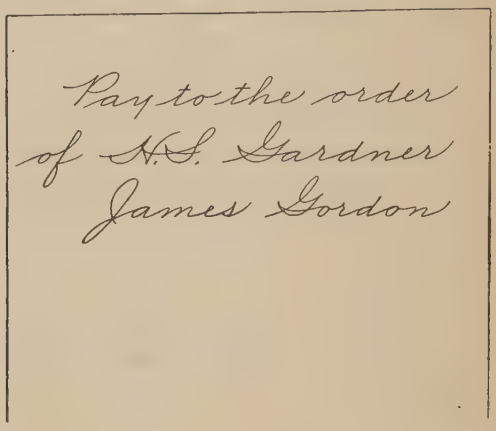
An instrument is indorsed in full when it specifies the person to whom, or to whose order the instrument is to be payable. The full indorsement, also called special indorsement, is preferable, and the holder may, if he chooses, convert a blank indorsement into a special indorsement by writing the proper words (see illustration) above the signature.

The following forms illustrate the two indorsements commonly used.

BLANK INDORSEMENT



SPECIAL OR FULL INDORSEMENT



An indorsement, then, is necessary (unless the only or last indorsement already on the instrument is blank) to negotiate a note. Even though, by reason of a blank indorsement already upon the paper, the holder's indorsement is not necessary to negotiation, it will usually be required as an evidence of good faith.

For further discussion of indorsements consult a commercial law text.

A note is preferable to an open account, because it is a written promise to pay at a certain time. It makes certain the amount, and it can be transferred in payment of debts, or discounted at bank for cash.

The bookkeeper handles notes through two accounts — Notes Receivable and Notes Payable. The distinction is simple. To the maker of a note it is Notes Payable; to any one else who owns it, it is Notes Receivable.

By *maturity* is meant the date upon which a note becomes due. A note does not bear interest before maturity unless it is so stated in the note, but every note bears interest from maturity, if it is not paid.

By *face* is meant the sum written in the note. The face of a note does not change.

The Notes Receivable account and the Notes Payable account, like personal accounts, are ruled when they balance.

Freight and Cartage. — Freight, Cartage, Express, and Postage on goods purchased are a part of the cost of purchases, and may be shown in the Purchases account. It is preferable, however, to keep a separate account for Freight and Cartage, and at the end of a business period to close it into the Purchases account.

Proprietor's Personal Account. — The Proprietor's Personal account contains a record of the proprietor's dealings with the business in all matters except investment or withdrawal of investment. It is kept like any other personal account.

MARCH: CONTINUATION OF FEBRUARY BUSINESS

No. 48 March 1 Bought of H. S. Clough & Co. invoice of Feb. 28, $1110. Terms: On account 10 days.

Make the entry at the top of the first blank page in the journal, following the work for February.

No. 49 March 2 Sold Wm. Archer & Co., 250 bu. Oats at 76¢ per bu., 25 bu. Rye at $1.20 per bu.; total, $220. Terms: On account.

No. 50 March 3 Paid Rice, Miller & Co. cash, $352.50, in payment of invoice of Feb. 23.

No. 51 March 3 Received cash of Emerson & Sons, to apply on account, $250.

No. 52 March 5 Paid H. S. Clough & Co. cash on account, $500.

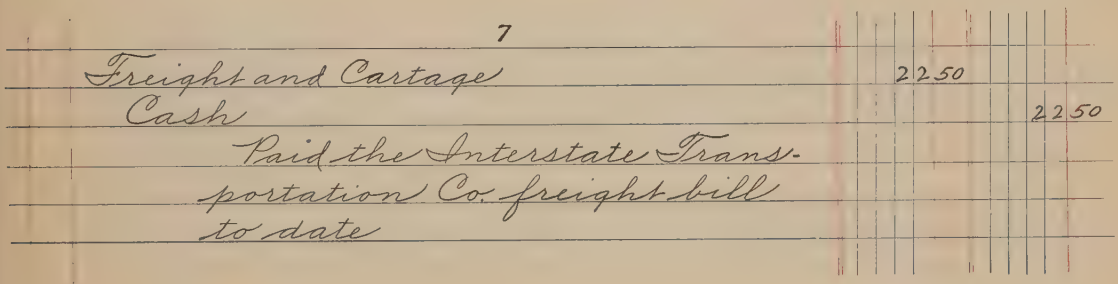
No. 53 March 6 Bought of Kidder & Hill invoice of March 5. Terms: On account 60 days. 500 bu. Corn at 68¢ per bu. $340.00

Use care in figuring the invoices. Always go over the calculations a second time. It takes longer at first, but it will save time in the end. Do not enter the items in the journal. Make the entry as usual.

No. 54 March 7 Paid the Interstate Transportation Co. for freight bills to date, $15.

B. P. 11. — *Debit* FREIGHT AND CARTAGE *with the cost of freight, cartage, express, and postage on merchandise purchased.*

The following illustrates the form of the entry, but the amount is different.



No. 55 March 8 Sold E. H. French & Co., 150 bu. Corn at 80¢ per bu., 200 bu. Oats at 76¢ per bu. Terms: On account 10 days.

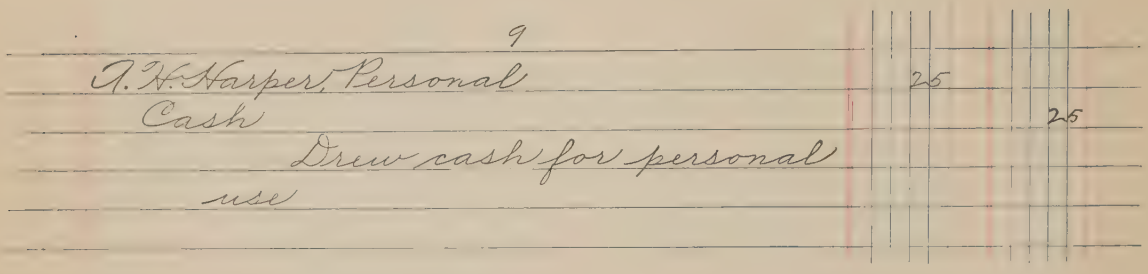
Calculate the amount of the invoice. Check the calculations to insure accuracy. Enter as usual.

No. 56 March 9 Student withdraws from the business cash, for personal use, $25.

B. P. 12. — *Debit* PROPRIETOR, PERSONAL, *with all cash withdrawn by him for personal use.*

The proprietor may, if he wishes, pay these small items from time to time, as any other individual. If he does not, they are finally transferred to his Capital account. In some instances such items are entered directly in the Capital account, but the better practice is to open a Personal account.

The following illustrates the form of the entry.



No. 57 March 10 Bought of Kidder & Hill invoice dated March 9. Terms: On account 30 days. 500 bu. Corn at 72¢ per bu., 100 bu. Rye at $1.08 per bu.

No. 58 March 12 Paid H. S. Clough & Co. cash, $100, to apply on account.

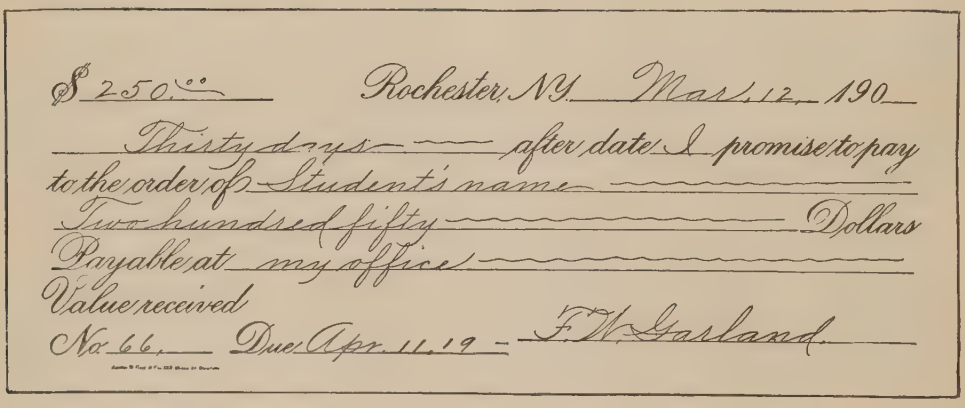
No. 59 March 12 Sold F. W. Garland 25 bbl. Flour at $9.20 per bbl. Terms: Note at 10 days.

Although the terms of this sale are "Note at 10 days," the transaction will be entered in the purchaser's account, just as all previous sales.

No. 60 March 13 Received from F. W. Garland his 10-day note, dated March 13, in payment of your invoice of the same date.

B. P. 13. — *Debit* NOTES RECEIVABLE, *at face value, with all notes made by others and received by the business.*

The following illustrates the form of the note which F. W. Garland gives you, the place, amount and time being different.


$250.00 Rochester, N.Y. Mar. 12, 190
Thirty days after date I promise to pay
to the order of Student's name
Two hundred fifty Dollars
Payable at my office
Value received
No. 66. Due Apr. 11, 19 F. W. Garland.

No. 61 March 13 Sold Wm. Archer & Co. 75 bbl. Flour at $9.20 per bbl., receiving their note at 15 days in payment.

This transaction is equivalent to No. 59 and No. 60. Assuming that the note is received at the time of the sale, two entries are nevertheless made in order to have a complete record of business transacted with Wm. Archer & Co. The two entries will be similar to the two preceding ones.

No. 62 March 14 Received a 30-day note, dated to-day, from S. A. Dodge & Co., on account. Face of note, $237.50. (B. P. 13 and 10.)

No. 63 March 15 Received a 10-day note, dated March 14, from J. S. Sumner, on account. Face of note, $250.

Entry similar to that for the preceding transaction.

No. 64 March 16 Sold S. A. Dodge & Co. 300 bu. Corn at 80¢ per bu., 25 bbl. Flour at $9 per bbl. Terms: On account.

No. 65 March 17 Bought of H. S. Clough & Co. invoice of March 16. Terms: On account. 50 bbl. Flour at $8 per bbl., 250 bu. Corn at 70¢ per bu.

No. 66 March 19 Sold J. B. Fulton 200 bu. Oats at 76¢ per bu., 100 bu. Corn at 80¢ per bu., receiving his 2-month note in payment.

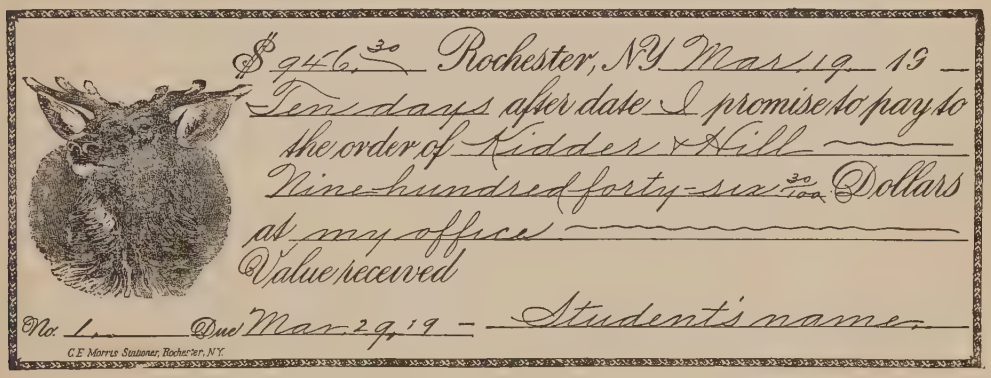
Two entries similar to those for No. 61.

No. 67 March 19 Bought of Kidder & Hill invoice of this date, giving your 10-day note in payment, 100 bbl. Flour at $8 per bbl., 250 bu. Corn at 70¢ per bu.

As in No. 61, in order to have a complete record of your transactions with Kidder & Hill, you will pass the transaction through their personal account. (B. P. 5 and 6 for the first entry. B. P. 7 and 14 for the second entry.)

B. P. 14. — *Credit* NOTES PAYABLE, *at face value, with all notes made and issued by the business.*

The following is the form of the note which you will give Kidder & Hill. The amount and the address are different.


$ 946.30 Rochester, N.Y. Mar. 19 13
Ten days after date I promise to pay to
the order of Kidder & Hill
Nine hundred forty-six 30/100 Dollars
at my office
Value received
No. 1 Due Mar. 29, '13
Student's name
C.E. Morris Stationer, Rochester, N.Y.

No. 68 March 20 Bought of Warner & Freeman invoice dated to-day, giving your note at 10 days in payment. 300 bu. Corn at 70¢ per bu.

Make two entries similar to those for No. 67.

No. 69 March 21 Sold A. H. Warren 25 bbl. Flour at $9.20 per bbl., 95 bu. Corn at 80¢ per bu., receiving his 30-day note, dated to-day, for the amount of the invoice.

Entries similar to those for No. 61.

No. 70 March 22 Sold Weston & Hill 13 bbl. Flour at $9 per bbl., 200 bu. Corn at 75¢ per bu. Terms: On account.

No. 71 March 23 Bought of Chas. A. Hill & Co. invoice of this date, and gave them your note at 60 days in payment. 500 bu. Oats at 66¢ per bu., 250 bu. Corn at 70¢ per bu.

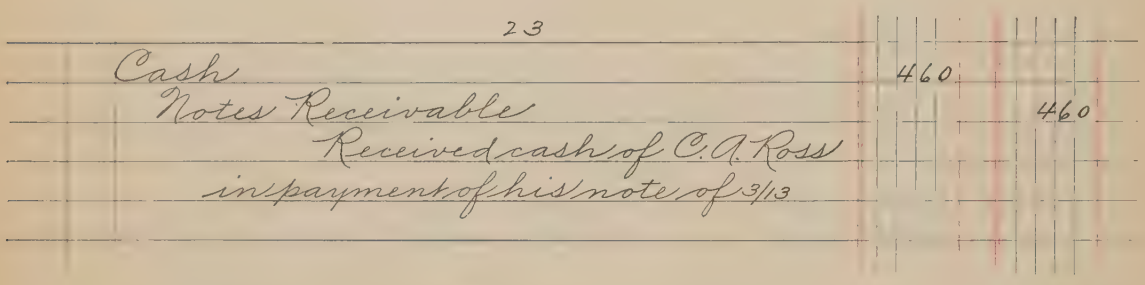
Entries similar to those for No. 68.

No. 72 March 23 Sold Roberts Bros. 25 bbl. Flour at $9 per bbl. Terms: On account 15 days.

No. 73 March 23 F. W. Garland has paid his note of the 13th inst. in cash, $230.

B. P. 15. — *Credit NOTES RECEIVABLE with amounts received in payment for notes of others (previously entered to the debit of Notes Receivable).*

The note should now be marked "Paid" and returned to F. W. Garland. As Notes Receivable was debited when the note was received, it is evident that Notes Receivable should be credited when the note is disposed of. The following illustrates the form of your entry.

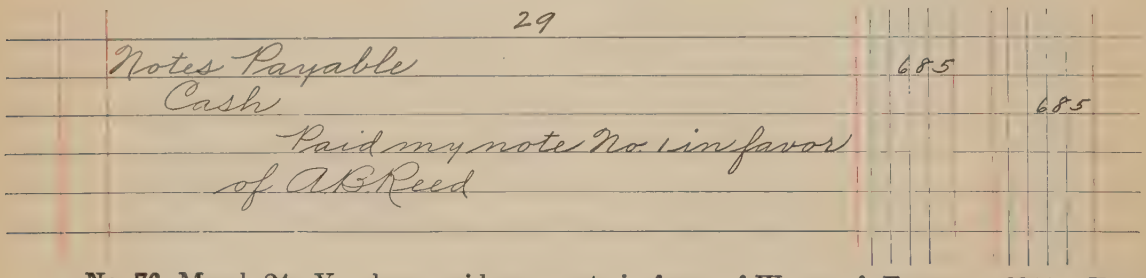


No. 74 March 24 J. S. Sumner has paid his note due to-day, $250. Entry similar to that for the preceding transaction.

No. 75 March 24 You have paid your note of the 19th inst., in favor of Kidder & Hill, $975.

B. P. 16. — *Debit NOTES PAYABLE with amounts given in payment of notes issued by the business (previously entered to the credit of Notes Payable).*

You have paid cash and received the note. As Notes Payable was credited when the note was issued, it is evident that Notes Payable should be debited when the note is paid. The following illustrates the form of the entry.



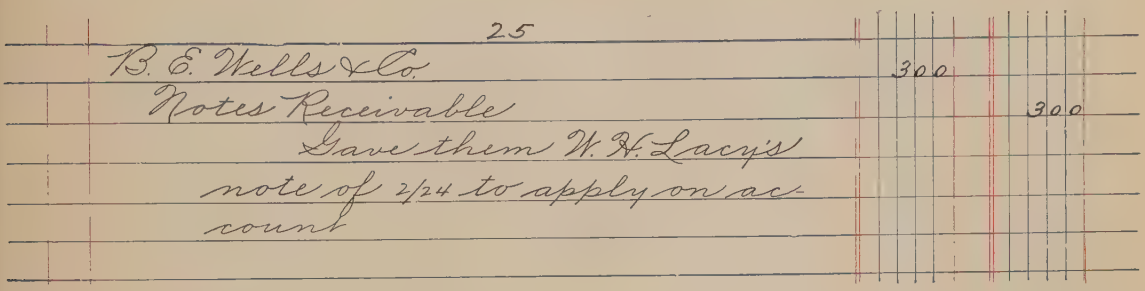
No. 76 March 24 You have paid your note in favor of Warner & Freeman, $210. Entry similar to that for the preceding transaction.

No. 77 March 26 Received of E. H. French & Co., to apply on account, their note dated March 25 for $200.

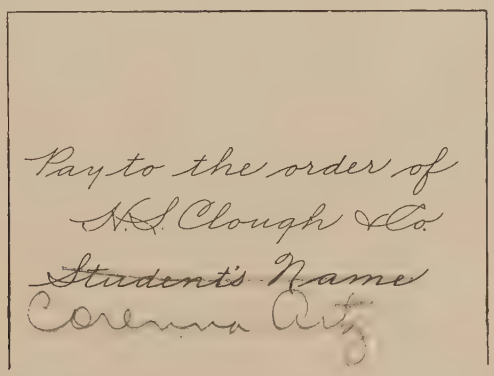
No. 78 March 26 Transfer by indorsement A. H. Warren's note of the 21st inst., for $306, to H. S. Clough & Co. to apply on account.

B. P. 17. — *Credit NOTES RECEIVABLE, at face value, with notes of others transferred to creditors on account, or discounted at a bank.*

Instead of keeping A. H. Warren's note until it becomes due, you have given it to H. S. Clough & Co., to apply on account, and they agree to accept it at its face value. You have paid H. S. Clough & Co. on account; hence they should be debited. (B. P. 7.) You have, for value, disposed of a note previously entered to the debit of Notes Receivable; hence Notes Receivable should be credited. The value you have received is equivalent to cash received from A. H. Warren and transferred to H. S. Clough & Co. The following illustrates the form of the entry.



Assuming that you use a special indorsement (see Indorsements, page 30), your indorsement will be in the form shown below. You have indorsed the note and delivered it to H. S. Clough & Co.; in other words, you have negotiated the note.



No. 79 March 26 Paid cash for clerk hire, $50; for stamps, etc., $2.

No. 80 March 27 Gave Kidder & Hill your note, dated to-day, at 30 days, for $340, to apply on account.

No. 81 March 27 William Archer & Co. paid their note of the 13th inst. in cash, $690. Entry similar to that for No. 74.

No. 82 March 28 Gave the Interstate Transportation Co. cash, in payment of freight bills to date, $12. (B. P. 11.)

No. 83 March 28 You have taken from the store for personal use 1 bbl. Flour at $8.

B. P. 18. *— Debit the* PROPRIETOR, PERSONAL, *with the cost price of goods taken from the business for personal use.*

B. P. 19. — Credit PURCHASES at cost price with goods taken from stock by the proprietor, or sold at cost price to employees.

The student will note that when the proprietor takes goods for his personal use he is charged not at the usual sale price, but at the cost price. Purchases are credited, rather than sales, because the goods have not really been sold, but withdrawn from stock.

No. 84 March 29 Bought of A. J. Lane invoice of March 28. Terms: On account. 300 bu. Oats at 64¢; 100 bu. Rye at $1.10.

No. 85 March 29 Paid F. A. Smith & Co. cash, $165, in full of account.

No. 86 March 29 Received of Wm. Archer & Co., cash on account, $150.

No. 87 March 30 Bought of Rice, Miller & Co. invoice of March 28. Terms: On account 30 days. 25 bbl. Flour at $7.90 per bbl.; 200 bu. Corn at 70¢ per bu.

No. 88 March 30 Sold W. A. Scott 200 bu. Oats at 76¢ per bu.; 25 bbl. Flour at $9 per bbl. Terms: On account 30 days.

No. 89 March 31 Bought of F. A. Smith & Co. invoice of March 29. Terms: On account 30 days. 40 bbl. Flour at $7.50 per bbl.

No. 90 Post from the journal, following previous directions. Rule all personal accounts which balance.

No. 91 Check the posting.

No. 92 Pencil foot the ledger accounts, adding March items to February footings. On the larger side of the ledger account, write in small pencil figures, in the explanation space, the footing of that side of the account; underneath it write the footing of the smaller side, subtract, writing the remainder underneath, and leave these pencil figures in the ledger. Carry this remainder to the trial balance opposite the name of the account, and in the proper column. (See Cash account in model ledger, page 12 for illustration of this method of finding the balance of an account.)

No. 93 When the trial balance has been approved, copy it on the page following the February trial balance.

TRIAL BALANCE ERRORS

As already explained, a trial balance is an exhibit of the balances of the open accounts in the ledger. (Or it may be an exhibit of the totals of the open accounts.) It is a mechanical device which proves that the debits and credits are equal. It does not prove that the debits and credits are correct, but only that they are equal.

If the debits and credits are equal in the original entries; if the posting is correctly done; if the addition and subtraction is accurate, and if only accounts which balance are ruled, a trial balance is certain. If there is an error, it arises from one of these four sources; therefore, make sure that there is a debit equal in amount to each credit in the journal, that the amounts are correctly posted, that the calculations are accurately made, and that every ruled account has equal debits and credits above the ruling. There is no magic about finding trial balance errors. The trial balance depends upon the simple mathematical proposition of carrying equal amounts to each side of the ledger. The following suggestions, however, will often be found helpful.

1 Find the exact amount of the error. It may be a single item or footing which has not been posted.

2 If the difference is 1 in any column, the mistake is usually in addition or subtraction, or if the difference is 9 in any column, it frequently indicates two errors in addition. If one column is overadded 1 and the adjacent column is underadded 1, the resulting error will be 9.

3 If the difference is an even number, it may indicate an amount posted to the wrong side, which, of course, makes an error double the amount of the wrong posting.

4 If the error is divisible by 9, there may have been a transposition of figures, and the quotient found by dividing the error by 9 will be the difference between the figures transposed. If 36 is posted 63, the resulting error will be 27. Dividing 27 by 9 gives 3, which is the difference between 6 and 3.

5 The error may be due to a misplacement, in which case the quotient found by dividing the error by 9 will give the number misplaced. If \$5 is posted \$50, the error will be \$45. Dividing 45 by 9 gives 5, the number misplaced.

6 If the error is divisible by 99, and due to a misplacement, the sum was misplaced two columns. If 50¢ is posted as \$50, the resulting error will be \$49.50, which contains 99 50 times.

STATEMENTS

There are two principal statements prepared from double entry books. These statements summarize in brief, but comprehensive form, the results of the business during the period for which they are prepared. It is to these statements rather than to the books themselves that the business man looks for his information concerning the progress and results of the business. It is very important that they be correct, both as to the results attained and as to the method of exhibiting such results.

The Profit and Loss statement is an exhibit of the profits and losses of the business during the period which it covers.

The Balance Sheet is an exhibit of the assets, liabilities, and net worth of the business at the time it is made.

A profit is realized when goods increase in value, or when the selling price exceeds the cost price, or when income is received from investment or from services rendered.

A loss is realized when goods decline in value, or when the cost exceeds the selling price, or when an expense is incurred in conducting the business.

An Asset, or Resource, is anything of value owned by the business, including amounts due the business from debtors.

A Liability is any debt or obligation which the business owes.

A *fiscal period* is a business, or financial, period, at the close of which business statements are prepared and the books closed. It may coincide with the calendar year, but it may be for any desired period.

An *inventory of merchandise* is the value of goods on hand, usually reckoned at the cost price.

A "physical" inventory is taken by making an actual count of all the unsold goods. A schedule is prepared, showing the quantity, prices, and total value.

Generally speaking, an inventory is a schedule of unsold or unused goods. In every case the inventory is credited to the account to which the goods were originally charged. The method of bringing the inventories on to the ledger will be illustrated later.

The statements are prepared from the trial balance and the inventories. However, if the inventories have been entered upon the ledger, and are thus included in the trial balance, the statements may be prepared entirely from the trial balance, using such explanatory detail from the ledger as may be desired.

Assume the following trial balance to have been taken from the student's ledger, December 31.

Trial Balance, Dec. 31, 19-

5	Cash	1138 50	
6	Notes Receivable	659 50	
"	Wm. Archer & Co.	40	
7	S. A. Dodge & Co.	475	
"	Emerson & Sons	125	
"	E. H. French & Co.	172	
8	Roberts Bros.	217	
"	W. A. Scott	367	
"	J. S. Sumner	270	
9	Weston & Hill	275	
10	W. S. Clough & Co.		789
"	Kidder & Hill		478
11	A. J. Lane		342
"	Rice Miller & Co.		3175 0
"	F. A. Smith & Co.		273
12	W. H. Stevens		125
13	Notes Payable		805
"	Student's Capital		2500
14	Student's Personal	40	
15	Sales		6127 50
16	Purchases	7837	
17	Freight & Cartage	45	
"	General Expenses	96	
		11797	11797

Excluding from present consideration the proprietor's accounts, every account on the trial balance shows one of four results — profit, loss, asset, or liability. Each debit balance shows one of two results — asset or loss. Each credit balance shows one of two results — liability or profit. Every balance on the trial balance must be used once on one of the two statements, never on both statements, since that would destroy the equilibrium between debits and credits.

In addition to the accounts on the trial balance, there is an inventory of merchandise not shown by the ledger, amounting to $2718. Inventory amounts, not on the ledger, must be used twice, once on each statement; on one statement as a debit; on the other statement as a credit.

The Profit and Loss Statement. — An analysis of the trial balance preparatory to making the profit and loss statement shows that the accounts showing profit or loss are Purchases, Freight and Cartage, Sales, and General Expenses. (Note how they are grouped on the trial balance.)

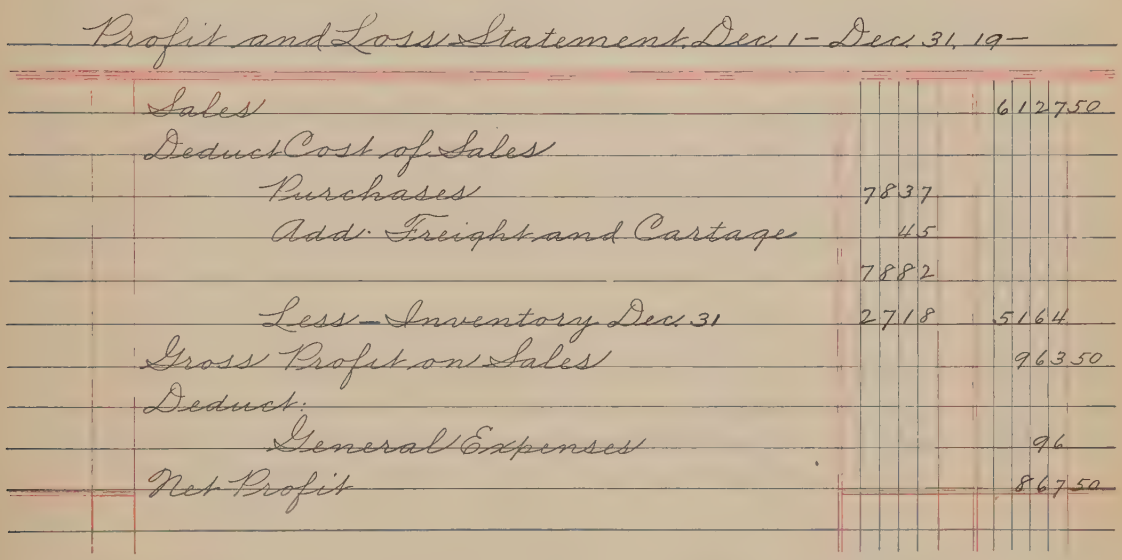
The merchandise accounts, Purchases, Sales, and Inventory, must be considered together. Freight and Cartage is an expense directly chargeable to Purchases. General Expenses indicate the items of expense which are not chargeable to any particular activity of the business, but to the whole business generally.

Freight and Cartage is added to Purchases to find the gross cost of purchases. Before finding the profit on sales, it is necessary to find the cost of Sales. The Purchases account, with Freight and Cartage added, shows the total cost of goods bought. The inventory shows the cost of goods yet unsold. The difference, therefore, will be the cost of goods sold.

If, now, the sales and the cost of goods sold be compared, the difference must be the profit on sales.

This profit, however, has to be diminished by the loss shown by the General Expenses account. As there are no other losses, when this calculation is made, we shall have the net, or real, profit for the period.

This information may be plainly exhibited in the following form.



Profit and Loss Statement, Dec. 1 – Dec. 31, 19–

Sales		612750
Deduct Cost of Sales		
Purchases	7837	
Add: Freight and Cartage	45	
	7882	
Less — Inventory Dec. 31	2718	5164
Gross Profit on Sales		96350
Deduct:		
General Expenses		96
Net Profit		86750

Proprietorship equation: Investment + Profit = Net Worth, or Proprietorship.

Student's investment Dec. 1,	2500	
Less — Personal debit	40	2460
Add:		
Net profit		867.50
Student's net worth Dec. 31,		3327.50

Student's merchandise inventory March 31 consists of the following.

1416 bu.	Corn	70¢ per bu.	$991.20
655 "	Oats	60¢ " "	393.
200 "	Rye	$1.10 " "	220.
115 bbl.	Flour	7.80 " bbl.	897.
			2501.20

Copy the inventory in Blank No. 1, following the trial balance for March.

From the trial balance and inventory prepare a profit and loss statement for February and March, using the form of the illustrated statement, but getting the amounts from your own trial balance.

The heading of the statement should be: "Profit and Loss Statement Feb. 1, 19— to March 31, 19—."

When the statement has been approved, copy it in Blank No. 1, following the record of the inventory.

The Balance Sheet. — As already stated, the balance sheet is an exhibit of the assets and liabilities of the business at the time it is prepared. Since assets are what the business *owns* and liabilities are what the business *owes*, the difference between the assets and liabilities must be the net worth of the business. The conclusion, therefore, to be arrived at on the balance sheet is the net worth of the business.

The balance sheet is based upon the following equation:

Assets − Liabilities = Net Worth, or Proprietorship.

Refer to the trial balance shown in the text from which the illustrative profit and loss statement was made.

In addition to the inventory of merchandise, every debit balance on the trial balance not used on the profit and loss statement shows an asset.

Cash account always shows an asset, since it is impossible to pay out more cash than has been received. Notes Receivable account always shows a debit balance, if any, and indicates the value of the notes owned by the business. It is always an asset. Accounts Receivable (the collective name for personal accounts owing to the business) always show debit balances, and are assets, being the amounts owned by the business, but in possession of those who owe the business.

Notes Payable account always shows a credit balance, if any, and is always a liability, being the amount the business owes on its outstanding notes. Accounts Payable (the collective name for personal accounts owed by the business) always show credit balances, and are liabilities, being the amounts the business owes to others.

The Proprietor's personal account is subject to the same interpretation as any other personal account, but its disposition depends upon the wish of the proprietor. He may direct that it stand open, as other personal accounts, or he may direct that it be closed into his capital account at the close of a business period. In this set it is to be so closed.

The Capital account is a liability, but differing somewhat from the other liabilities. The proprietor's claim is subordinate to the claims of the other creditors.

The proprietor's capital account, and his personal account are withheld from the balance sheet until the conclusion. If they are used with the other accounts, the result will be net profit instead of net worth, and since it is desired to show net worth, the proprietor's accounts are used at the conclusion of the statement.

The non-ledger inventory has been used on the profit and loss statement as a credit; that is, it was subtracted from the Purchases debit. On the balance sheet it must be used as a debit; otherwise the debits and credits would not be equal on the two statements, and they would not agree.

The assets shown on the trial balance are Cash, Notes Receivable, and Accounts Receivable. The liabilities shown on the trial balance are Notes Payable and Accounts Payable.

These assets and liabilities should be arranged in the following form:

Balance Sheet Dec. 31. 19-

Assets:			
Cash	1138 50		
Inventory, Dec. 31	2718		
Notes Receivable	659 50		
Accounts Receivable as under:			
W. A. Scott	367		
S. A. Dodge & Co	475		
J. S. Sumner	270		
E. H. French & Co.	172		
Emerson & Sons	125		
Wm Archer & Co	40		
Weston & Hill	275		
Roberts Bros.	217		
Total Assets			6457
Liabilities:			
Notes Payable	805		
Accounts Payable as under:			
A. J. Lane	342		
W. H. Stevens	125		
F. A. Smith & Co.	273		
Rice, Miller & Co.	3175 0		
H. S. Clough & Co.	789		
Kidder & Hill	478		
Total Liabilities			3129 50
Net Worth			3327 50
Student's Investment	2500		
Deduct:			
Student's Personal Account Debit	40		
Add	2460		
Net Profit	867 50		
Student's Net Worth	3327 50		
	3327 50		3327 50

Note the agreement between the two statements. This agreement proves that the equality of debits and credits has been maintained. It does not prove that the statements are correct. If, for example, a loss item is used as an asset (both debits), or a liability is used as a profit (both credits) this agreement would not be affected. If the statements are correct, they will agree; but they may agree when they are not correct.

From your trial balance and inventory prepare a balance sheet as of March 31, using the form of the illustrative balance sheet, but getting the details from your own trial balance and inventory. The heading for the balance sheet should be "Balance Sheet, March 31, 19—."

When the balance sheet has been approved, copy it in Blank No. 1, following the profit and loss statement.

CLOSING THE LEDGER

At the close of a fiscal period the inventories are entered upon the ledger, and the accounts showing losses or gains are closed into a summary account called Profit and Loss, which shows the amounts and the sources of all profits and all losses of the business, and which, in turn, is closed into the proprietor's account. The purpose of closing is to make the ledger show the true condition of the business at the time of closing and to make possible the keeping of the losses and gains of each period distinct from those of every other period.

It is a fundamental principle of bookkeeping that all entries, except balancing entries, reach the ledger by the process of posting. It is necessary now to make closing entries in the journal, which, when posted, will close the ledger.

Only the accounts showing losses or gains are closed. The data for making the closing entries is found on the profit and loss statement. It must be followed in detail.

Refer now to the illustrative profit and loss statement. The first entry will be for the purpose of placing the inventory on the ledger. Since the inventory is an asset, it must appear on the debit side of the ledger.

B. P. 20. — *Debit* INVENTORY, *at closing, with the value of goods on hand.*

B. P. 21. — *Credit* PURCHASES, *at closing, with the value of goods on hand.*

The purpose of this entry is to separate the Purchases account into two parts, merchandise sold and merchandise on hand. When the entry is posted, the Purchases account will show on the debit side the cost of all merchandise purchased; on the credit side, the cost of merchandise on hand. The difference between the two sides will show the cost of goods sold, exclusive of Freight and Cartage. Entering the inventory on the credit side of Purchases has the same effect as deducting the inventory from Purchases on the profit and loss statement. (If it is desired to deduct from one side of a ledger account, it is accomplished by adding to the other side.)

On the Profit and Loss statement Freight and Cartage is added to Purchases to show gross cost of purchases, and the same process is required on the ledger.

B. P. 22. — *Debit* PURCHASES, *at closing, with the cost of Freight and Cartage.*

Since Freight and Cartage is to be added to Purchases, it should no longer stand open on the ledger.

B. P. 23. — *Credit* FREIGHT AND CARTAGE, *at closing, with the balance shown by that account.*

The cost of sales was deducted from sales in order to get the gross profit on sales. It must be deducted on the ledger also by making an entry on the debit side.

B. P. 24. — *Debit* SALES, *at closing, with the cost of goods sold.*

B. P. 25. — *Credit* PURCHASES, *at closing, with the cost of goods sold.*

When these entries have been made and posted, the Purchases account and the Freight and Cartage account will balance, and the difference between the two sides of the Sales account will show the gross profit on sales, exactly as on the profit and loss statement.

The Sales account will now be closed and Profit and Loss account opened.

B. P. 26. — *Debit* SALES, *at closing, with the gross profit on sales.*

B. P. 27. — *Credit* PROFIT AND LOSS, *at closing, with all profits.*

The only other account showing a profit or a loss is General Expenses. This amount was subtracted from the gross profit on sales in the profit and loss statement, and must be subtracted from the profit as shown in the ledger Profit and Loss account.

B. P. 28. — *Debit* PROFIT AND LOSS, *at closing, with all losses.*

B. P. 29. — *Credit* GENERAL EXPENSES, *at closing, with the loss shown by that account.*

The Profit and Loss account will now show the net profit, which is closed into the Proprietor's personal account. The profit belongs to the proprietor, and he can draw it out of the business, or add it to his investment, as he may choose.

B. P. 30. — *Debit* PROFIT AND LOSS, *at closing, with the net profit.*

B. P. 31. — *Credit the* PROPRIETOR'S PERSONAL *account at closing, with the net profit; or, if there are two or more proprietors, credit each with his share.*

Assuming that the proprietor decides to let the profit remain in the business as an additional investment, an entry is required to transfer the balance of the personal account into the capital account. Since the personal account now contains a debit of $40 and a credit of $867.50, it will be necessary to debit the personal account and credit the capital account for the difference, $827.50, in order to close the former into the latter.

Note the following journal entries which are required for the foregoing.

Note also the ledger accounts affected by the closing entries. Trace the entries to the respective accounts, and note carefully the method of ruling.

Make journal entries to close your ledger for March. Follow the form of the illustrative closing entries, but get the details from your own profit and loss statement for March 31.

Post the closing entries to the ledger and rule the accounts. Follow the form of ruling shown in the illustrations. Note how the ruling of these accounts differs from the ruling of a personal account.

Dec. 31, 19–

7	Inventory		2718	
5	Purchases			2718
	To set up Inventory account and credit Purchases with cost of unsold goods			
	Purchases		45	
	Freight and Cartage			45
	To close Freight and Cartage and show total cost of Purchases			
6	Sales		5164	
5	Purchases			5164
	To close Purchases and show cost of Sales			
6	Sales		96350	
8	Profit & Loss			96350
	To close Sales and open Profit and Loss			
8	Profit & Loss		96	
7	General Expenses			96
	To close General Expenses			
8	Profit & Loss		86750	
4	Student Personal			86750
	To transfer net profit to Student's Personal account			
4	Student Personal		82750	
"	Student Capital			82750
	To close Student's Personal account			

Student. Capital

					19- Dec	1		1	2500	
						31	From Personal a/c	4	827	50

Student. Personal

19- Dec	10		1	25	19- Dec	31	Net Profit	4	867	50
	20		2	15						
	31	To Capital a/c	4	827 50						
				867 50					867	50

Purchases

19- Dec.	2		1	1010	19- Dec	20		2	15	
	7		1	896		31	Inventory	4	2718	
	12		2	32550			Cost of Goods Sold		5164	
	13		2	14625 0						
	15		2	1383						
	18		2	1675						
	24		3	6395 0						
	28		3	4605 0						
	31	Freight & Cartage	4	45						
				7897					7897	

Freight and Cartage

19- Dec.	10		1	30	19 Dec	31	Purchases	4	45	
	20		2	15						
				45					45	

Sales

19-				19-			
Dec. 31	Cost of Goods Sold	4	5164	Dec. 5		1	836 50
"	Gross Profit	"	96350	7		1	1029 50
				13		2	314
				18		2	300
				20		2	685
				24		3	920
				25		3	697
				27		3	575
				29		3	770 50
			6127 50				6127 50

Inventory

19-			
Dec. 31		4	2718

General Expenses

19-				19-			
Dec. 1		1	23	Dec. 31	Profit and Loss	4	96
2		1	15				
12		2	27 50				
28		3	30 50				
			96				96

Profit and Loss

19-				19-			
Dec. 31	Gen. Expenses	4	96	Dec. 31	G. P. on Sales	4	96350
"	Net Profit		86750				
			96350				96350

Ruling, Closing, and Balancing Accounts. — Personal accounts, Notes Receivable account, and Notes Payable account are ruled when they balance. Such ruling does not affect the form or content of the account, but simply indicates that all transactions above the ruling have been completed.

Accounts showing a loss or a gain are closed at the end of a fiscal period. Both the form and the content of the accounts are changed. By closing these accounts, the profits and losses for each succeeding period are kept distinct.

Accounts are balanced for the purpose of summarizing them, and showing the result in a single statement. By balancing an account the form is changed, but not the content. Accounts may be balanced at any time; they should be balanced before they become too long; they must be balanced when they are transferred from one page of the ledger to another page.

The Cash account should be balanced frequently, and the Proprietor's account should be balanced at closing time.

The balanced accounts are merely re-stated for convenience in reading.

Note that the entry to balance is written in red ink. The reason is that the entry is not a posted entry, but is made directly on the face of the ledger for the purpose of balancing the account. When the account is thus balanced, the ledger is unbalanced, and care must be used to write the balance on the opposite side of the account. The red ink entry serves notice to the bookkeeper that the entry in red must be duplicated in black on the opposite side of the ruled account.

Balance your Capital account and your Cash account for March, following the illustrations as to form, but using the amounts in your ledger.

Cash

19-						19-					
Dec.	1		1	2500		Dec.	1		1		13
	5		"	836	50		2		"		15
	7		"	1029	50		"		"		975
	13		2	314			7		"		325 50
	18		"	300			10		2		30
	20		"	920			12		"		27 50
	24		3	875			15		"	1	300
	28		"	369	50		16		"	1	675
	29		"	485			20		"		15
							24		3		600
							25		"	4	62 50
							26		"	1	022
							28		"		30 50
							31	Balance	✓	1	138 50
				7629	50					7	629 50
19-											
Dec.	31	Balance	✓	1138	50						

Student, Capital

						19-					
Dec.	31	Net Worth	✓	3327	50	Dec.	1			2500	
							31	From Personal a/c 4		827	50
				3327	50					3327	50
						19- Dec.	31	Net Worth	✓	3327	50

PROOF TRIAL BALANCE

A proof trial balance is a trial balance taken after the ledger is closed. It is no different in form from the trial balance already taken, but the closed accounts will not appear upon it. One new account — Inventory — will appear on the proof trial balance.

The proof trial balance is taken in order to make sure that the equality of debits and credits has been maintained during the process of closing and balancing accounts. It proves that the ledger is in balance for the beginning of the new fiscal period. It is a precaution which no careful bookkeeper will omit.

Take a proof trial balance from your ledger.

When your proof trial has been approved, copy it, following the balance sheet.

Submit your February and March work to your teacher for inspection and final approval.

REVIEW QUESTIONS

1 Define buying on account. Define selling on account.
2 When are personal accounts credited? When debited?
3 Give directions for checking the posting. What is the object?
4 Why should Freight and Cartage be closed into Purchases?
5 What is the purpose of the Proprietor, Personal account?
6 What is a promissory note?
7 What are Notes Receivable?
8 When should Notes Receivable be debited? When credited?
9 What are Notes Payable?
10 When should Notes Payable be credited? When debited?
11 Which side of the Notes Receivable account is always the larger if there is a difference?
12 When will the Notes Receivable account balance?
13 Which side of Notes Payable account is the larger if there is a difference?
14 Define indorsement.
15 What is a trial balance, and what does it prove?
16 What is a Profit and Loss statement? A Balance Sheet?
17 Define account, loss, profit, asset, liability, inventory.
18 Why should the inventory of merchandise be used in the Profit and Loss Statement?
19 What account should be credited for goods taken from stock at cost?
20 What price is usually used in calculating the inventory?
21 What information should the Profit and Loss statement contain?
22 Name four classes of accounts, with respect to titles.
23 How is the net worth of a business determined?
24 What accounts are closed at the end of a fiscal period?
25 What is a fiscal period?
26 Distinguish between balancing an account and closing an account.
27 What is the purpose of closing the ledger?
28 In what color should balancing entries be written? Why?
29 What is the purpose of the Profit and Loss account?
30 Explain the method of closing the ledger by journal entries.
31 Into what account is the Profit and Loss account closed?
32 State the proprietorship equation.
33 What is a proof trial balance?
34 What is the distinction between a trial balance of totals and a trial balance of balances?

SUMMARY OF BOOKKEEPING PROCEDURE FOR DEBITING, CREDITING, AND CLOSING ACCOUNTS

While the following do not cover every transaction which might arise, they are sufficiently comprehensive for the purposes of an introductory text.

Cash

1 Debit Cash with all cash received.

4 Credit Cash with all cash paid.

The debit balance of the account shows cash on hand, and is an asset.

Proprietor's Capital Account

Debit the Proprietor's Capital account when any part of his investment is withdrawn.

2 Credit the Proprietor's Capital account with his original investment and all subsequent investments.

A credit balance in this account shows the net worth of the proprietor. A debit balance shows his net insolvency.

General Expenses

3 Debit General Expenses with all expenses of the business, except those for which a separate account is kept.

29 Credit General Expenses, at closing, with the loss shown by that account.

Purchases

5 Debit Purchases with the cost price of all merchandise purchased.

22 Debit Purchases, at closing, with the cost of Freight and Cartage.

Debit Purchases, at closing, with the inventory of goods on hand, if any, at the beginning of the period.

19 Credit Purchases at cost price with goods taken from stock by the proprietor, or sold at cost price to employees.

21 Credit Purchases, at closing, with the value of goods on hand.

25 Credit Purchases, at closing, with the cost of goods sold.

56 Credit Purchases with goods returned by the business to the seller (unless a Returned Purchases account is kept).

58 Credit Purchases with the cost of goods damaged or destroyed by fire.

Personal Accounts (with Creditors)

7 Debit a Person with cash or notes given to him on account.

55 Debit a Person with allowances made to the business for returned purchases, damaged goods, adjusted claims, etc.

6 Credit a Person with the purchase price of merchandise purchased from him.

NOTE: — Cash purchases may be handled without passing through the personal account, depending upon the system used in any given case.

A credit balance in a personal account shows an amount owed by the business, and is a liability.

Personal Accounts (with Customers)

8 Debit a Person with the sale price of merchandise sold to him.

NOTE: — Cash sales may be handled without passing through the personal account, depending upon the system used in any given case.

10 Credit a Person with cash or notes received from him on account.

53 Credit a Person with allowances made by the business for returned sales, damaged goods, adjusted claims, etc.

A debit balance in a personal account shows an amount due the business, and is an asset.

Sales

24 Debit Sales, at closing, with the cost of goods sold.

26 Debit Sales, at closing, with the gross profit on Sales.

52 Debit Sales with the sale price of goods returned by customers (unless a Returned Sales account is kept).

9 Credit Sales with the sale price of all merchandise sold.

Freight and Cartage

11 Debit Freight and Cartage with the cost of freight, cartage, express, and postage on merchandise purchased.

23 Credit Freight and Cartage, at closing, with the balance shown by that account.

Proprietor's Personal Account

12 Debit the Proprietor's Personal Account with all cash withdrawn for personal use.

18 Debit the Proprietor's Personal account with the cost price of goods taken from the business for personal use.

68 Debit the Proprietor's Personal account, at closing, with the net loss, or, if there are two or more proprietors, debit each with his share.

31 Credit the Proprietor's Personal account, at closing, with the net profit; or, if there are two or more proprietors, credit each with his share.

41 Credit the Proprietor's Personal account with monthly salary allowance, unless a separate salary account is kept.

60 Credit the Proprietor's Personal account with any expenses of the business paid from his private funds.

The balance of the account may be transferred to the proprietor's capital account; otherwise, it is treated like any other personal account.

Notes Receivable

13 Debit Notes Receivable, at face value, with all notes made by others and received by the business.

15 Credit Notes Receivable with amounts received in payment for notes of others (previously entered to the debit of Notes Receivable).

17 Credit Notes Receivable at face value with notes of others transferred to creditors on account, or discounted at bank.

The debit balance of this account shows the face value of notes on hand, and is an asset.

Notes Payable

16 Debit Notes Payable with amounts given in payment of a note issued by the business (previously entered to the credit of Notes Payable).

14 Credit Notes Payable at face value with all notes made and issued by the business.

The credit balance of the account shows the amount owed by the business on its outstanding notes, and is a liability. When all notes are paid, the account must balance.

Merchandise Inventory

20 Debit Inventory at closing, with the value of goods on hand.

64 Credit Inventory at closing, with the inventory, if any, at the beginning of the period.

The debit balance of the account shows the book value of merchandise on hand, and is an asset.

The merchandise inventory may be handled through the Purchases account.

Profit and Loss

28 Debit Profit and Loss, at closing, with all losses.

30 Debit Profit and Loss, at closing, with the net profit.

27 Credit Profit and Loss, at closing, with all profits.

69 Credit Profit and Loss, at closing, with the net loss.

Discounts on Purchases

45 Debit Discounts on Purchases, at closing, with the profit shown by that account.

32 Credit Discounts on Purchases with all discounts allowed to the business for prompt payment of invoices.

Discounts on Sales

33 Debit Discounts on Sales with discounts allowed to customers for prompt payment of invoices.

49 Credit Discounts on Sales, at closing, with the loss shown by that account.

Furniture and Fixtures

34 Debit Furniture and Fixtures with the cost of furniture and equipment purchased for use in conducting the business.

62 Credit Furniture and Fixtures at cost price with equipment sold, destroyed, or otherwise disposed of.

The account will balance if all the equipment is disposed of; otherwise, the debit balance shows the cost of furniture and fixtures on hand, and is an asset.

NOTE: — If the account is credited with depreciation, the balance will show the book value of the furniture and fixtures on hand.

Interest on Notes Payable

35 Debit Interest on Notes Payable with all interest paid on notes, whether paid in advance or at maturity.

48 Credit Interest on Notes Payable, at closing, with the loss shown by that account.

When there is interest accrued, or interest prepaid on notes payable, the account must be adjusted before closing so that it will show actual cost of interest during the period.

Real Estate

36 Debit Real Estate with the cost of buildings and lands, and with all expenses incurred in obtaining title thereto.

63 Credit Real Estate at cost price with real estate sold, destroyed, or otherwise disposed of.

The account will balance if all the property is disposed of; otherwise, the debit balance shows the cost of real estate on hand, and is an asset.

Insurance Prepaid

37 Debit Insurance Prepaid with cost of insurance placed upon real estate, stock of goods, or other property.

42 Credit Insurance Prepaid, at the end of a business period, with the cost of insurance during that period.

The balance of the account, after adjustment, shows the amount of insurance premiums prepaid, and is an asset.

Real Estate Expenses

38 Debit Real Estate Expenses with the expenses due to the maintenance of real estate used for business purposes.

47 Credit Real Estate Expenses, at closing, with the loss shown by that account.

Interest on Notes Receivable

44 Debit Interest on Notes Receivable, at closing, with the profit shown by that account.

39 Credit Interest on Notes Receivable with interest received on notes, loans, and overdue accounts.

When there is interest accrued on notes receivable, the account should be debited or credited with such an amount as will make the account show the interest earned during the period.

Selling Expenses

40 Debit Selling Expenses with all expenses incurred directly in the sale of merchandise, including wages of clerks, advertising, salesmen's salaries, traveling expenses, etc., unless separate accounts are kept for such expenses.

54 Debit Selling Expenses with freight prepaid on Sales (unless a separate Freight-Out account is kept).

46 Credit Selling Expenses, at closing, with the loss shown by that account.

Interest Prepaid on Notes Payable

43 Debit Interest Prepaid on Notes Payable, at the end of a business period, with the amount of interest prepaid on our own notes.

61 Credit Interest Prepaid on Notes Payable, at the end of a business period, with the decrease of prepaid interest during the period.

If there is an increase in the amount of interest prepaid, the account would be debited for such increase. The balance of the account, after adjustment, shows the amount of interest prepaid, and is an asset.

Discount on Notes Payable

65 Debit Discount on Notes Payable, at closing, with the profit shown by that account.

50 Credit Discount on Notes Payable with all discounts earned by prepayment of Notes Payable.

Discount on Notes Receivable

51 Debit Discount on Notes Receivable with the amount charged by a bank for discounting notes receivable for the business.

66 Credit Discount on Notes Receivable, at closing, with the loss shown by that account.

Fire Loss

57 Debit Fire Loss with the cost of property damaged or destroyed by fire.

59 Credit Fire Loss with the amount realized from the sale of damaged goods, or other property, or received from insurance in settlement of fire losses.

67 Credit Fire Loss, at closing, with the loss shown by that account.

Good Will

Debit Good Will with the amount paid for a business in excess of the net worth as shown by the tangible assets and liabilities.

Credit Good Will with the amount written off to Profit and Loss from time to time.

The debit balance of the account shows the book value of Good Will, and is an asset.

Exercise 1

From the following trial balance, prepare a Profit and Loss statement and a Balance Sheet on loose paper.

The inventory of merchandise is $2316.50.

TRIAL BALANCE, NOV. 30, 19— J. H. ADAMS

J. H. Adams, Capital		$4000.
J. H. Adams, Personal	$175.	
Cash	1670.80	
Purchases	6780.90	
Freight and Cartage	115.	
Sales		5369.75
General Expenses	275.23	
Notes Receivable	780.	
C. H. Barber	176.95	
A. E. Carter	476.85	
R. L. Thomas	972.60	
Notes Payable		875.
C. H. Little		369.80
T. H. O'Neil		463.95
S. T. Wilson		169.83
Ellis & Thompson		175.
	$11423.33	$11423.33

When the statements have been approved, make the closing entries on loose paper.

Credit the Proprietor's Personal account with the gain; then close the Personal account into the Capital account, as in the closing entries for March.

Exercise 2

Prepare Profit and Loss Statement, Balance Sheet, and closing entries.

Inventory, $1215.63.

TRIAL BALANCE, DEC. 31, 19— C. R. LOVELAND

C. R. Loveland, Capital		$6000.
Cash	$4562.80	
Purchases	5962.75	
Freight and Cartage	83.90	
Sales		6216.72
General Expenses	296.80	
Notes Receivable	500.	
Accounts Receivable	2100.50	
Notes Payable		215.
Accounts Payable		1075.03
	13506.75	13506.75

In the above trial balance, personal accounts have been listed under their collective titles — Accounts Receivable, and Accounts Payable. This change will not affect the Balance Sheet, except to shorten it.

No personal account has been opened for the Proprietor; therefore the Profit and Loss account will be closed directly into the Capital account.

Exercise 3

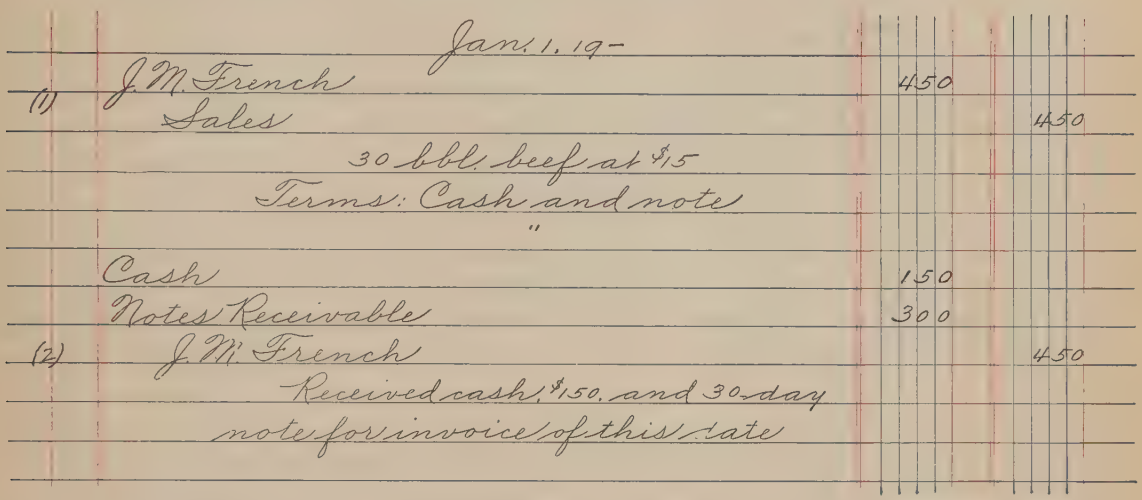
The transactions thus far recorded have required only a simple journal entry, having one debit and one credit. Many transactions require compound entries, having two or more debits or credits. *Debits and Credits must be equal in amount,* not in the number of items.

Journalize the following transactions:

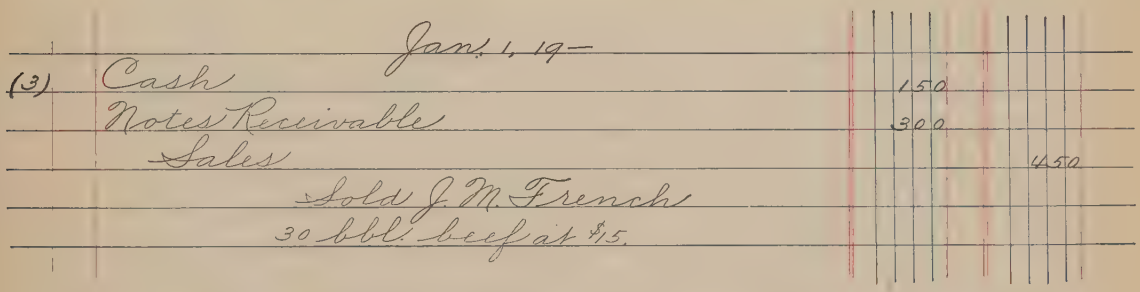
Jan. 1, 19— Sold F. E. Clark 25 bbl. of beef at $16 per bbl. Received in payment, his 30-day note for $250; cash, $150.

Make two entries, one for the sale and one for the payment.

The following illustrates the form of the entries required.



If it is not desired to enter the transaction in the account of F. E. Clark, then the entry may be in the form shown below. The student will observe that the debit to J. M. French in the first entry is cancelled by the credit to J. M. French in the second entry, and that the debits and credit remaining are as shown in the third entry. Entries one and two are preferred.



2 Sold Albert Stewart 15 bbl. Apples at $6 per bbl. Received in payment cash, $55; note at 10 days, $35.

3 Sold J. D. Lawrence 55 bbl. Flour at $7 per bbl., 25 bbl. Beef at $16.50 per bbl. Received in payment cash, $275, and his 30-day note for the balance.

4 Sold D. C. Schneider 50 bbl. Apples at $7 per bbl., 25 bu. Potatoes at $1.60 per bu. Received in payment his 30-day note, $100; John Smith's 10-day note, $80; cash, $210.

Debit Notes Receivable separately for each of the two notes.

5 Frank Miller, not having sufficient funds with which to pay his 6-month note for $1000 which you hold, and which is due to-day, arranged with you to renew one-half the note for 30

days. Consequently, he gave you, for his old note, $500 cash and a new note for $500. (B. P. 1, 13, and 15.)

6 Bought of Marion Douglas invoice of Flour, dated Jan. 4, $1750. Gave in payment cash, $875, and your 60-day note for the balance.

8 Bought of Henry Lindlinger invoice of merchandise, $347.50. Gave him in payment cash, $147.50, and your 30-day note for $200.

9 Sold Benjamin D. Collins 5 hf. chests Japan Tea, 375 lb., at 30¢ per lb., 10 mats Java Coffee, 750 lb. at 25¢ per lb. Terms: Cash.

9 Received of Benjamin D. Collins cash, as follows: To pay for invoice of this date, $300; to pay his note in our favor due to-day, $300; to pay balance due on his account, $150.

Debit cash for the total amount received. Credit Collins for the amount of the invoice plus the amount paid on account. Credit Notes Receivable for the face of the note.

10 Bought of John Hamilton invoice of Apples, $2000. Gave in payment John Smith's note for $500; your 60-day note for $300; cash $1200. (B. P. 17, and 14.)

11 Sold Norris Bros. 1000 bu. Wheat at $1 per bu. Received in payment your note, now due, for $500; John Brown's note for $475; and cash, $25.

12 Student (the business) owes Henry Nussbaum $300, on account. Nussbaum also holds Student's note for $500. Both amounts are due. Student pays the note and the account, using cash from the business, $700, and from his private funds, $100.

Do not charge Nussbaum's account for the note. (B. P. 16.) Using private funds to pay debts owed by the business is equivalent to putting those funds into the business. (B. P. 2.)

Exercise 4

James C. Carter invested $12000 in a certain business. During the month of January he purchased the following invoices of goods.

Jan. 1, $4000; Jan. 3, $1185.68; Jan. 4, $2800; Jan. 8, $1500; Jan. 15, $673.50; Jan. 23, $568.50.

The sales were as follows: Jan. 4, $850; Jan. 5, $1020; Jan. 6, $716.50; Jan. 11, $825; Jan. 13, $1050.75; Jan. 17, $400; Jan. 18, $348.50; Jan. 23, $193.75; Jan. 29, $815.38; Jan. 31, $1300.

The following amounts were charged to General Expenses: Jan. 3, $63; Jan. 3, $250; Jan. 7, $115; Jan. 14, $115; Jan. 21, $115; Jan. 22, $20.80; Jan. 29, $115; Jan. 30, $75.60.

The following amounts were charged to Freight and Cartage: Jan. 15, $175.83; Jan. 30, $163.92.

The inventory at the end of January was $5227.68.

On loose ledger paper, open the following accounts: James C. Carter, Capital; Purchases, Freight and Cartage, Inventory, Sales, General Expenses, and Profit and Loss.

Record the above items in the proper accounts, prepare a Profit and Loss statement, make closing entries and post, ruling the closed accounts.

Close the Profit and Loss account directly into the Capital account, since no Personal account is opened for the Proprietor.

It is impossible to prepare a Balance Sheet for this problem, since the assets and liabilities are not stated.

Balance the Proprietor's account.

Exercise 5

The purchases of a certain merchant during the year 19— were $45160.50; the sales for the same period were $43733.33. The inventory at the close of the year was $12360.50.

Required:

(*a*) The cost of goods sold.
(*b*) The gross profit on sales.
(*c*) The rate per cent of profit on sales.
(*d*) The rate per cent of profit on cost of sales.

The rate of profit is calculated both on sales and on cost of sales, depending upon the practice of the business. If the per cent of profit on cost of sales is desired, the cost of goods sold is the base, and the rate is found by dividing the profit by the cost of sales. If the per cent of profit on sales is desired, the sales is the base, and the rate is found by dividing the profit by the sales. Do not use the gross cost of purchases to find the rate of profit, since the profit is not on the goods bought, but on the goods sold.

Carry the result of the percentage calculations to four decimal places, for example, 94.56, and state it thus: 94.56%.

Exercise 6

Inventory Jan. 1, $36000. Purchases during the year, $145000, of which goods worth $2500 were returned. Sales, $174500, of which goods worth $900 were returned by customers. The inventory at the close of the year was $49300.

Required:

(*a*) Net purchases.
(*b*) Net sales.
(*c*) Cost of goods sold.
(*d*) Gross profit on sales.
(*e*) Rate of profit based on cost of goods sold.
(*f*) Rate of profit based on sales.

Use the following form to find the results required from which to make the calculations.

Sales			$----
Less — Returned Sales			----
Net Sales			$----
Deduct — Cost of Goods Sold:			
Inventory, Jan. 1		$----	
Purchases	$----		
Less — Returned Purchases	----		
Net Purchases		----	
Total Cost of Goods in Stock During the Year		$----	
Less — Inventory, Dec. 31		----	
Cost of Goods Sold			----
Gross Profit on Sales			$----

Note that the inventory at the beginning of the fiscal period is added to Purchases made during the year, since the initial inventory becomes a part of the purchases immediately at the beginning of the new period. The inventory at the close of the fiscal period is deducted because those goods have not entered into the cost of goods sold.

CASH RECEIPTS

DATE	L. F.	ACCOUNT CREDITED	EXPLANATION	CASH DR.	TOTAL
19–					
Apr. 1		A. B. Fowler, Capital	Investment	6000	
2		C. H. Carroll	Inv. March 20	2687 5	
4		Notes Receivable	A. M. Frye's note 3/4	7218 0	
5		A. R. Free	In full of account	2097 0	
7		D. B. Hill	Invoice April 1	176	
9		Notes Receivable	R. H. White's note 3/0	600	
11		M. C. Dean & Co.	On account	925	
12		H. M. Parsons	Invoice 4/2	420	
13		Notes Receivable	C. B. Lyon's note 3/14	700	
15		P. M. Trainer	Invoice of today	260	
				10281 25	
"		Cash Dr.			10281 25
Apr. 15		Balance	on hand		3381 48

Exercise 7

On loose ledger paper, set up the following accounts: Student, Capital, 6 lines; Cash, 10 lines; Purchases, 10 lines; Freight and Cartage, 4 lines; Sales, 10 lines; General Expenses, 6 lines; Notes Receivable, 5 lines; James Thompson, 5 lines; Richard White, 5 lines; Notes Payable, 5 lines; John Adams, 5 lines; Henry Brown, 5 lines.

Record the following transactions in the proper accounts, and take a trial balance.

April 1, Student invested $5000 cash in a certain business.
2 Paid rent for April, $150.
3 Bought merchandise for cash, $2030.60.
4 Bought merchandise for cash, $1560.70.
5 Sold merchandise for cash, $1600.
6 Bought merchandise on account, from John Adams, $1700.
8 Sold merchandise for cash, $693.50.
8 Gave John Adams 30-day note in payment of invoice of the 6th.
9 Sold on account, to James Thompson, merchandise, $412.50.
10 Sold on account, to Richard White, merchandise, $512.60.
11 Received 20-day note from James Thompson for invoice of the 9th.
12 Bought on account, from Henry Brown, merchandise, $316.50.
12 Paid cash for stationery and office supplies, $25.60.
14 Sold on account, to James Thompson, merchandise, $856.75.
15 Sold merchandise for cash, $687.50.
16 Bought from John Adams, on account, merchandise, $163.50.
17 Bought merchandise for cash, $423.50.
18 Sold on account, to Richard White, merchandise, $419.50.
20 Paid cash for Freight and Cartage, $37.50.

CASH PAYMENTS

DATE	L.F.	ACCOUNT DEBITED	EXPLANATION	CASH CR.	TOTAL
19-					
Apr. 2		General Expenses	Rent for April	6 00	
4		Real Estate	Lot 212 Allen St.	290 00	
"		A. J. Carson & Co.	Invoice 3/25	160 00	
6		Notes Payable	Note in favor Larson & Co.	720	
9		General Expenses	Clerks' wages	50	
11		General Expenses	Stationery	6	
12		M. A. Ellis & Co.	Invoice 4/4	210	
13		General Expenses	Advertising	502	
"		A. M. Dennis	On account	295	
14		L. C. Merritt	In full of acct.	644	
15		Freight and Cartage	Paid Interstate Trans. Co.	13	
"		L. M. Carter & Co.	Invoice 4/5	392 75	
"		Cash Cr.		6899 77	6899 77
"					10281 25

BOOKS INTRODUCED IN APRIL TRANSACTIONS

THE CASH BOOK

The cash book, or cash journal, varying in form according to the business for which it is designed, contains the record of all cash transactions of any business.

Cash is debited when the amount received is entered in the Cash Dr. column of Cash Receipts. The name of the account producing the cash is credited when recorded in the Account Credited column of Cash Receipts. (See illustration, page 58.)

Cash is credited when the amount paid is entered in the Cash Cr. column of Cash Payments. The name of the account for which cash is paid is debited when recorded in the Account Debited column of Cash Payments. (See illustration, page 59.)

Each page of the cash book, therefore, contains equal debits and credits.

The difference between the totals of the Cash Dr. and the Cash Cr. columns of the cash book shows the cash balance.

When taking a trial balance, if no Cash account is kept in the ledger, the Cash balance is entered direct from the cash book upon the trial balance.

Exercise 8

Having made proper cash book headings on a sheet of journal paper, enter all cash transactions for February, and balance the cash book as shown in the above illustration. Continue the entries for March and balance the cash book again at the end of March.

THE SALES JOURNAL

The sales journal is designed to furnish a summary record of all merchandise sold. The details, as to items and prices, are omitted, because that information may be obtained from the duplicate invoices, or from a copy of the order. However, if there is no other complete data with regard to the prices and items, the sales book must contain such information. The following model illustrates a simple form of sales journal.

SALES JOURNAL

DATE	L.F.	TO WHOM SOLD	ADDRESS	TERMS	SALES NO.	SALES CR.
19- Apr. 1		A. W. McKey	282 Elm St. City	Cash	1	440
3		F. C. Tenney	193 Union St. Lynn	n/10	2	180
5		Dickson & Young	942 Main St. City	1/10	3	482 50
7		A. A. Knowles & Co.	69 Central St. Holyoke	Cash	4	1285
12		Fletcher Bros.	961 Lincoln St. City	2/30	5	3112 25
17		F. H. Randall & Co.	148 State St. City	n/10	6	245
21		Rice & Pond	Georgetown, O.	a/c	7	560
26		E. Mason & Co.	Milford, Mass.	Cash 2%	8	387 50
29		S. E. Kingsley	116 Front St. Wilton	1/10 1/30 n/60	9	525
30		Sales Cr.				4411625

Explanation of Terms

Net ten days, or n/10, means that the purchaser must pay the invoice as rendered within ten days. If not paid when due, interest may be charged, since the purchaser expressly or impliedly agrees to the terms.

One per cent ten days, or 1/10, means that the purchaser may deduct 1% from the invoice as rendered if he pays it within ten days. If he neglects to pay it within the term of discount, he must pay the full amount. The possible deduction of 1% is an incentive to prompt payment.

Two per cent 30 days, or 2/30, means that the purchaser may deduct 2% from the face of the invoice any time within 30 days. Thereafter it is net.

On account, or on a/c means that the term within which the invoice may be paid is indefinite. Because it is indefinite it is used infrequently.

Cash 2% means that the purchaser may deduct 2% from the face of the invoice if it is paid immediately. It is a special inducement to quick payment.

Note ten days indicates that upon receipt of the invoice the buyer shall issue his note at ten days (or whatever term is specified) for the amount. The note should bear the date of the invoice.

Sight draft indicates that the seller retains the right to draw a draft on the buyer for immediate payment. This is equivalent to Cash terms.

Goods are also sent C. O. D. (collect on delivery) by express or parcel post. When goods are so shipped, the buyer must pay for them before he receives them. This method is used when dealing with strangers, or with persons to whom the seller does not wish to extend credit.

When goods are shipped C. O. D. the amount may be charged to a C. O. D. account. If this method is used, the C. O. D. account is credited with returns. The names of the individuals to which such shipments are made appear in the explanation column of the ledger.

Goods are also shipped C. O. D. by freight. This form of shipment is indicated by Bill of Lading with Sight Draft attached (B/L, S/D). When goods are shipped in this way, the bill of lading (which is a copy of the contract between the shipper and the carrier) is sent to an agent, usually a bank. Attached to the bill of lading is a sight draft, calling upon the buyer to pay for the goods upon presentation. When the goods arrive at destination, the common carrier informs both the bank and the buyer. The latter, upon paying the draft, may secure the bill of lading and with it the title to the goods. The bank then remits the payment to its customer, usually making a small charge for its services.

The student will observe the advantages of the sales journal. It furnishes a complete and compact record of all sales of merchandise. Much time is saved both in making the entry and in disposing of it later. Since all the credits in the sales journal are Sales, it is not necessary to post the separate amounts to Sales. Each individual account is debited for the amount of the invoice and the total is credited to the Sales account in the ledger.

Exercise 9

Rule a sales journal, following the preceding model. Turn to the journal entries for March and record all the sales for that month. Rule the sales journal, and bring down the total to the credit of Sales at the end of the month.

THE PURCHASES JOURNAL

The purchases journal, similar in form to the sales journal, contains a record of all merchandise purchased. Details as to items and prices are omitted because the invoice itself is filed and may be referred to when necessary.

There are, of course, other forms of invoice records. Invoices may be pasted in a book, or filed in a loose-leaf binder. The form of the record does not affect the principle involved, and that style should be used which is best adapted to the requirements of the business.

As in the sales journal, much time is saved in making the entry and in posting to the ledger. Since every debit is Purchases, it is not necessary to post the separate amounts to that account. Each individual account named is credited for the amount of the invoice, and the total is posted to the debit of Purchases account in the ledger. When the terms of the invoice offer a choice as to time of payment, as 2/10, n/30, the earlier date should be recorded in the "When Due" column. The following model illustrates a simple form of the purchases journal.

PURCHASES JOURNAL

DATE		L.F.	ACCOUNT CREDITED	ADDRESS	TERMS	WHEN DUE		WHEN PAID		PUR. DR.				
19-														
Apr.	3		West, Stone & Co.	35 Hampden St. N.Y.	Cash	4	3	4	5	1	4	6	2	50
	5		L. Hennes & Co.	700 N. Third St. City	1/30	5	5			1	0	5	0	
	9		Shields Bros.	158 E. Huron St.	n/10	4	19	4	18		9	5	0	
	13		Western Tea & Spice Co.	Tench & Clark, Chic.	Cash 2%	4	13	4	15	1	5	0	0	
	17		Shields Bros.	158 E. Huron St.	1/10 n/30	4	27				6	0	0	
	21		C. K. Fox	Duncan St. City	2/10	5	1				3	9	5	
	25		West, Stone & Co.	35 Hampden St. N.Y.	Net	4	25	4	28		8	7	5	75
	30		Purchases Dr.							6	8	3	3	25

The cash book, sales journal, and purchases journal are books of original entry complete in themselves, recording equal debits and credits for each transaction. There may be as many special books as the scope and nature of the business may require. In proportion as the number of special books increases, the number of entries in the general journal will decrease.

Exercise 10

Rule a purchases journal according to the preceding model. Turn to the journal entries for March and record all the purchases for the month. Rule the purchases journal and bring the total down to the debit of Purchases.

CHECK BOOK AND PASS BOOK

Banks. — A commercial bank is an institution which receives money for deposit and safekeeping, provides for the payment of money on the order of its depositors by means of checks, discounts commercial paper held by its customers, makes loans to borrowers, and issues its own notes which circulate as money.

There are five distinct types of banks: Commercial banks, savings banks, trust companies, building and loan associations, and safe deposit companies.

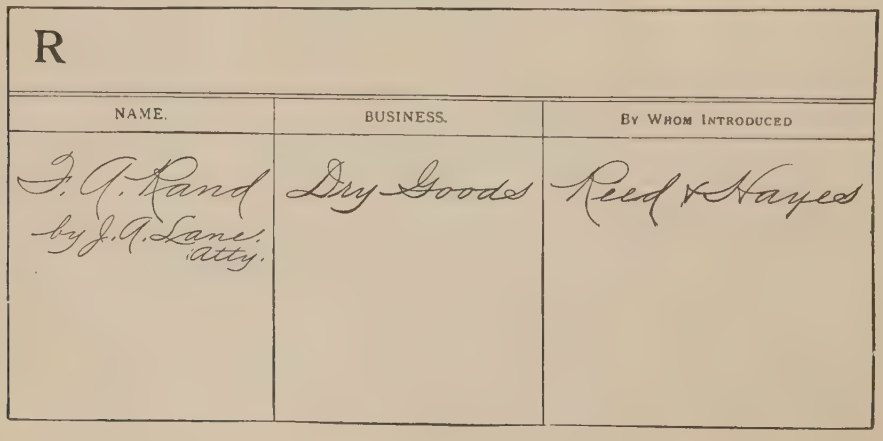
As applied to the work of this book, the student will be chiefly interested in the first type, and in two of its functions: 1, the receiving of deposits and the checking privilege, which grows out of the deposit function; and 2, the discounting function.

The commercial bank may be organized either under the laws of a state, or under the federal laws. There is no fundamental difference between state banks and national banks except as regards their supervision.

Deposits. — Assume that the student wishes to open an account at a commercial bank. If he is not acquainted at the bank, he will need some one to introduce him and, thus, in a sense to vouch for his desirability as a customer.

The applicant, having satisfied the proper official as to his desirability as a customer, will be required to fill out one or more signature cards. This card must show the depositor's signature as he will write it day after day for the rest of his life, certainly during his association with the bank. The bank must know the signatures of its depositors, and it would be impossible to do this if the form of the signature were changed from time to time.

Form of Signature Card



Deposit Slip. — The applicant then makes out a statement called a *deposit slip*, which shows the nature and amount of his deposit. Deposit slips vary somewhat in form, but they conform generally to the illustration shown below. If checks are to be deposited, the manner of listing them depends upon whether they are "local" or out-of-town checks. If they are local, that is, if they are drawn on a bank in the same city, they should be listed individually under the name of the bank upon which they are drawn, because the bank in which they are deposited collects them from the banks on which they are drawn, either by messenger or through the clearing house. If the checks are drawn on out-of-town banks, they should be listed individually under the name of the city, because the bank in which they are deposited will collect all checks on a given city through one correspondent bank. To put it another way, if the checks are local, give the name of the bank upon which they are drawn; if the checks are out of town, give the name of the city or town in which the bank is located.

DEPOSIT SLIP

DEPOSITED IN THE

Commercial Bank

FOR THE ACCOUNT OF

James M. Hastings

April 5, 19__

Checks and Drafts are credited subject to payment.

	DOLLARS	CENTS
Bills	5000	
Coin		
Checks Local name Bank / Out of town name City.		
Total	5000	

Banks are also identified by a compound number, as 2–27. This number is called the "transit number," and is assigned to the bank by the American Bankers' Association. The first number refers to the city in which the bank is located; the second number is the number of the bank in that city.

Bank Book. — The applicant will receive a small blank book, called a *bank book*, or pass book, in which the amount of his deposit will be entered. The entry should always be made by the proper official or clerk, and when so made becomes the depositor's receipt.

The applicant has now become a full-fledged depositor, with money to his credit and the privilege of drawing checks against the same. For this purpose the bank will give him a check book. For its stock checks the bank makes no charge to its depositors, but if the depositor desires some special form, he will usually have to pay for the special printing or engraving.

Checks. — A check is an instrument drawn on a bank by a depositor, demanding the payment of money. The person who orders is the drawer, the bank on whom it is drawn is the drawee, and the person named to receive payment is the payee.

Checks, like notes, are negotiable instruments, and like notes may be negotiated by indorsement and delivery, or by delivery only, depending upon how they are written and indorsed. If no existing person is named as payee, then the check is payable to bearer. A check written to the order of "Cash," or "bearer," or "John Doe" (a fictitious name) is payable to bearer. If the only indorsement, or the last indorsement, is in blank, the check is payable to bearer. Nevertheless, the transferer's indorsement is generally required, whether or not it is legally necessary, as an evidence of good faith and as a means of tracing the course of the check.

Checks circulate with much greater freedom than notes. They have almost displaced money in the transaction of modern business. It is estimated that at least 90% of all business transacted in the United States is transacted by means of checks, rather than actual money.

The Check Stub. — The *stub* is that part of the check on which the drawer makes his original record with regard to the payee, the account to be charged, the amount, etc. The stub is an important part of the record, and should be filled out first and with the same care which is used in filling out the check. The stub record may be on a separate sheet, but usually the check and the stub are bound together with perforations between them to make detaching easy. A check calls for the payment of money upon presentation. The drawer has no way of knowing into whose hands it may come after it leaves his. For his own protection, then, in coöperation with his bank, he must use great care in filling out the checks; first, so that the amount cannot be readily changed, and, second, so that the check will not be ambiguous. If the words and figures naming the amount to be paid do not agree, the words hold in preference to the figures, but the bank may refuse to pay until the ambiguity is corrected. The only way to correct an error on a check is to write a new one. Never erase. Never cross out one word or figure and write another in its place.

Responsibility. — If the bank pays a forged check, it is liable to the depositor for the amount paid, because the bank must know the depositor's signature. If the bank pays a check which has been raised to a larger sum, the responsibility for the ensuing loss falls upon the depositor if his carelessness was the cause of the loss; otherwise, upon the bank.

Canceled Checks. — No matter where a check is sent, it must come to the bank upon which it is drawn in order to be cashed. Even then, it is not usually cashed, but deposited with other items for credit. In any event, whether it is cashed, or credited to another account, it is charged to the account of the drawer. When it is so charged, it is canceled, usually, by means of a canceling stamp which cuts the word "Paid" in the check itself. The check goes to the bank bookkeeper, who charges it to the depositor's account. The check now goes to the filing department, where it is filed with other of the depositor's checks. Once a month the bank makes up a statement of the depositor's account. This statement shows the balance on deposit at the beginning of the month, the deposits made and checks drawn during the month, and the balance at the end of the month. The statement, together with the canceled checks, is either returned to the depositor by mail, or handed to him at the bank. Some banks, instead of making out monthly statements, strike a balance in the depositor's pass book either at stated periods, or at the depositor's request. Whatever variation there may be in the practice the purpose is the same — to furnish the depositor a statement of his account with the bank and to return his canceled checks. The check still serves a very useful purpose. The payee could not realize on it without indorsing it, so that the canceled check now serves as a convenient and valuable form of receipt, and should therefore be kept on file.

STATEMENT OF YOUR ACCOUNT WITH THE COMMERCIAL BANK

JANUARY 31, 19— JAMES M. HASTINGS

DATE	*Vouchers Enclosed* CHECKS	DATE	DEPOSITS
		Balance Forward	
Jan. 1	$175.60		$1365.80
4	269.80		
8	173.67	8	725.60
12	16.50		
15	23.85		
22	234.50	22	963.17
25	37.95		
26	102.		
28	97.60		
		29	138.90
		Balance	2062.

KEY

LST — Item as per list
COL — Collection
RET — Return
INT — Interest
OD — Overdraft
OO — Closed account

PLEASE EXAMINE AT ONCE
If no errors are reported in ten days account will be considered correct

Reconciliation. — Upon receiving the bank statement, the depositor should examine it carefully and compare it with his own balance as shown by the check book. If the balances differ — and they nearly always will — the depositor by comparing check stubs for checks issued with canceled checks for checks paid, can account for the difference. This is called the *reconciliation* of the bank statement with the check book. As soon as the depositor writes a check, he subtracts the amount from his balance. The bank cannot make the deduction until some time later when the check is presented. Consequently, the bank statement usually shows a larger balance than the depositor's account. Comparing checks with stubs, the depositor ascertains what checks had not been cashed when the statement was made up. If, now, he adds the sum of these unpaid checks to his own balance, the amount should equal the balance shown by the statement. If it does not, he must locate the error, either in his own record or in that of the bank, usually in his own. The opposite side of the statement contains a form (illustrated below) upon which the depositor may list the unpaid checks and reconcile the two statements. The statement and the canceled checks may then be filed.

Depositor's Proof. — To prove the balance as shown on your statement. Sort the checks numerically or by date issued. Check off on the stubs of your check book each of the checks paid by the bank and make a list of the numbers and amounts of those still outstanding in the space provided, to the sum of the outstanding checks add the balance as shown by your check book. This amount should correspond with the bank's balance, as shown on this statement.

CHECKS OUTSTANDING

NUMBER	AMOUNT
76	$32.50
78	2.15
81	240.80
Total Outstanding Checks	$275.45
Balance as per check book	1786.55
Total	$2062.00

JAMES M. HASTINGS' BUSINESS — APRIL

The student is now to act as bookkeeper for James M. Hastings, who has opened a store at 146 Elm Street, for dealing in flour, grain, and produce at wholesale. The salary paid will be $75 per month.

Mr. Hastings attends to the buying and selling and is absent from the city most of the time; a power of attorney will be conferred upon the student in order that he may sign and indorse notes, checks, and other papers during Mr. Hastings' absence. The power of attorney is the first paper on the pad of incoming vouchers which belongs to the outfit of business papers and forms furnished the student. The document should be read carefully in order that the form and wording be understood, and then folded lengthwise. Across the end of the folded instrument write:

Power of Attorney
given to
(Student's name)
by
James M. Hastings
April 1, 19—

The document may then be filed in the folder labeled Vouchers, which will be found in the large envelope of Business Forms.

Books Used. — In this exercise, the books used will be a journal, purchases journal, sales journal, cash book, and ledger. All cash transactions will be entered in the cash book, as illustrated on pages 58 and 59. All transactions other than cash will be recorded in the other books of original entry (journal, purchases journal, and sales journal).

Selling Price Lists. — Each student will be assigned a separate price list from the following table, from which the selling prices of all commodities dealt in will be taken.

Currency. — In addition to receiving checks and making payments by check, the student will also handle currency in the form of imitation bills and fractional pieces. This provides excellent drill in counting money rapidly and accurately, in arranging bills according to denominations and all facing the same way, and in balancing cash.

The proper way to count bills will be demonstrated by the teacher, or the student should take advantage of the opportunity of watching an experienced cashier or a paying teller at any bank. Their methods of handling money should be carefully imitated in all practice work.

All currency and checks received should be placed in the large envelope labeled Cash Drawer, which will be found in the package of Business Forms. All currency and checks issued should be placed in the envelope labeled Cash Paid Out.

April Selling Price Lists

	1	2	3	4	5	6	7	8	9	10	11	12	13
Apples	3.50	3.60	3.70	3.80	3.90	4.00	3.52	3.62	3.72	3.82	3.92	3.54	3.64
Barley	.86	.91	.86	.91	.86	.87	.92	.87	.92	.87	.88	.86	.88
Corn	.86	.84	.85	.86	.86	.86	.85	.86	.87	.85	.86	.85	.87
Flour	9.00	8.90	8.80	8.70	8.60	8.50	8.98	8.88	8.78	8.68	8.58	8.96	8.86
Oats	.56	.58	.57	.56	.56	.56	.57	.56	.55	.57	.56	.57	.55
Potatoes	1.10	1.15	1.20	1.15	1.10	1.15	1.20	1.15	1.10	1.15	1.20	1.15	1.10

APRIL SELLING PRICE LISTS — Continued

	14	15	16	17	18	19	20	21	22	23	24	25
Apples	3.75	3.80	3.75	3.70	3.75	3.75	3.80	3.80	3.75	3.70	3.65	3.80
Barley	.91	.86	.88	.92	.90	.88	.90	.91	.88	.86	.90	.91
Corn	.85	.86	.84	.86	.84	.86	.84	.86	.85	.84	.85	.86
Flour	8.75	8.70	8.75	8.80	8.75	8.75	8.70	8.70	8.75	8.80	8.85	8.70
Oats	.57	.56	.58	.56	.58	.56	.58	.56	.57	.58	.57	.56
Potatoes	1.15	1.20	1.15	1.10	1.15	1.20	1.10	1.05	1.10	1.15	1.12	1.15

TRANSACTIONS

No. 1 April 1, 19— James M. Hastings invests $8000 in the business which he has begun on this date. The amount should be in agreement with the currency contained in the envelope numbered to correspond with the number of this transaction on the April pad of incoming vouchers.

Make an entry on the Receipts side of the cash book. (B. P. 1 and 2.) The form of an entry will vary according to the books used, but the principles governing the entry do not change.

Count the cash. If it is correct, place it in the Cash Drawer.

No. 2 April 1 Mr. Hastings has rented the building at 146 Elm Street, from R. B. Hines at a rental of $100 per month. Pay April rent in currency, using bills of the largest denomination possible.

Make the entry on the payments side of the cash book. (B. P. 3 and 4.)

Remove from the pad of incoming vouchers the lease and receipt, each numbered 2, representing the business papers which were issued in connection with this transaction. Read the lease carefully, fold it lengthwise, and file it with the receipt in the folder labeled Vouchers.

No. 3 April 2 Bought goods of Daniels Bros., as per invoice.

Detach the invoice from the pad of incoming vouchers. See that the multiplications and the addition are correct, placing a check mark against each correct amount at the right. If the invoice is correctly figured, write O. K. with your initials underneath, in the lower left-hand corner.

Make the entry in the purchases journal. (Do not make an entry in the journal.)

File the invoice in the invoice file.

Take from your Cash Drawer the money to pay the invoice, using the largest possible denominations, and place it in Cash Paid Out envelope. Record the transaction in cash payments.

No. 4 April 2 Bought goods from D. Davenport & Co., as per invoice.

Check and O. K. the invoice as in No. 3. Make the entry in the purchases journal. Pay the invoice and file it in the invoice file. Take the proper amount of cash from the Cash Drawer and place it in the Cash Paid Out envelope. Make the proper cash book entry.

No. 5 April 3 Voucher No. 5 from the pad of incoming vouchers shows an order from J. A. Barker for a bill of goods. The terms are cash, and the cash accompanies the order.

Make out the invoice on a blank billhead taken from the pad in the package of Business Forms. Use the price list assigned you. If the invoice is correctly figured, it will agree with the amount of cash accompanying the order. The invoice should be receipted and placed in the envelope labeled Vouchers for Others.

The following represents the form of a bill after it has been treated as explained above.

Book _____ Page _____

New York! 454 Broome St. | Manchester! 17 Nicholas St. | Paris, 39 Rue du L'Echiquier! | Chemnitz, 23 Theater Strasse!

SIBLEY, LINDSAY & CURR CO.

Directors:
R. A. Sibley
D. M. Lindsay
T. F. Johnston
A. J. Townsend
T. B. Snyder

Rochester N.Y. Apr. 1, 19__

Sold to E. A. French
Nashua, N.H.

Terms Cash.

	✓	20 brls. N. Star Flour	4.50	90		✓	
	✓	20 " Pastry "	5.00	100		✓	
	✓	30 doz. C. Tomatoes	1.10	33		✓	
	✓	24 " C. Corn	1.15	27	60	✓	250 60

Received Payment
Sibley Lindsay & Curr Co.
per Mills.

File the order and all subsequent orders in the envelope labeled Vouchers.

Place the cash received in the Cash Drawer.

Make an entry in the sales journal, debiting J. A. Barker and crediting Sales; and an entry in the cash book, debiting cash and crediting J. A. Barker.

No. 6 April 3 Bought goods from L. A. Wright & Co., as per invoice. Proceed as in transaction No. 3.

Do not neglect to place the proper amount of cash in Cash Paid Out.

No. 7 April 4 Bought books and stationery for office use, as per invoice. Pay the invoice in currency, file in Vouchers folder, and make proper cash book entry. (B. P. 3.)

Make no entry in the purchases journal for this transaction. It is not a purchase of merchandise.

No. 8 April 4 Sell E. M. Smythe & Co., for cash, merchandise as per order received. Proceed as in transaction No. 5. Make out the invoice and receipt it. Place the order in the Vouchers file. Place the invoice in Vouchers for Others. Place the cash received in Cash Drawer. Make entries in sales journal and cash receipts.

No. 9 April 4 Bought merchan lise from Hatheway & Reynolds, as per invoice. Note the terms. Enter in the purchases journal only.

No. 10 First Report — Fill out the report blank taken from the pad of incoming vouchers. Foot in pencil the debit and credit sides of the cash book and enter the footings on the blank lines for Cash Receipts and Cash Payments, the cash on hand being the difference between the two amounts. Count the cash in the Cash Drawer. If it is equal to the balance shown by the cash book, you have proved cash. If the amount called for by the record (the cash book) and the amount actually on hand differ, an error has been made which must be discovered and corrected before the report is handed in. If you have a discrepancy, check your cash book entries with your handling of cash. Make sure that each entry on the receipts side is for cash actually received; that each entry on the payments side is for cash actually paid out. Verify the amount in Cash Paid Out. It should be equal to the total amount entered on the payments side. If Cash proves, finish the report. Foot in pencil the purchases journal and the sales journal, and from these books obtain the amounts needed to fill out the report. The completed report, together with such books and papers as may be called for, should be submitted to the instructor.

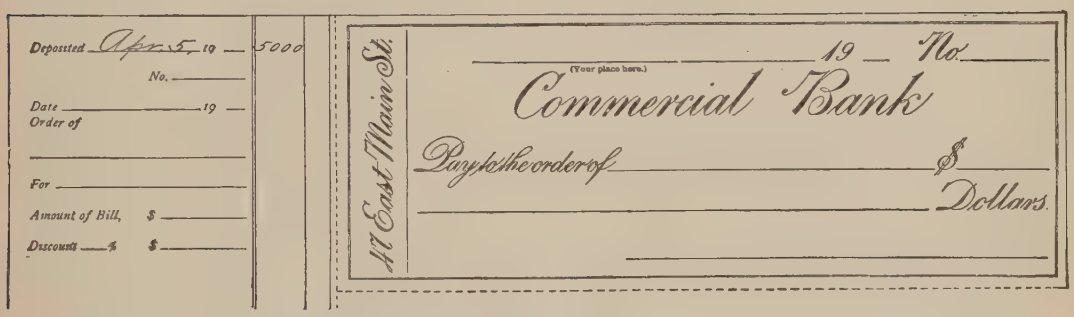
No. 11 April 5 Open an account for Mr. Hastings in the Commercial Bank, depositing $5000 in currency.

Make out a deposit slip for $5000 according to the illustration on page 63. Write your own name and price-list number on the deposit ticket, near the bottom, for the convenience of the teacher.

Count out $5000 in cash from the Cash Drawer and take the money, deposit slip and pass book to the bank. Receive credit for the amount of the deposit. (If there is no banking department in the school, the teacher will make the proper entry in the student's bank book.)

Make a record of the deposit on the stub of your check book according to the following form, filling in the current year.

Form of Stub and Check



No other entry is required for this transaction.

No. 12 April 5 Sell Charles E. Hayes goods on account, as per his order of the 4th inst. Make out the invoice. Enter in sales journal only.

No. 13 April 6 Fill Ellis & Rand's order. Proceed as in transaction No. 12.

No. 14 April 8 Bought goods from Smith & Dorothy as per invoice of this date.

No. 15 April 8 Received $300 in currency from Charles E. Hayes to apply on account of your invoice of the 5th. Record this transaction in cash receipts. (B. P. 4 and 10.)

Write a receipt for the amount, using voucher No. 2 as a model. Place the cash in the Cash Drawer and the receipt in Vouchers for Others.

No. 16 April 9 Pay Hatheway & Reynolds $400 in currency to apply on account of their invoice of the 4th. A receipt is received covering the amount, which should be filed in the Vouchers file. Enter on the payments side of the cash book.

No. 17 April 10 Bought goods from George C. Cary, as per invoice. Terms: On account.

No. 18 April 10 Received a promissory note from Ellis & Rand to apply on your invoice of the 6th. File the note in the Safe envelope.

This entry must be made in the general journal, since no special book is provided for notes. All details of the note should be mentioned in the explanation, or narrative, of the transaction. (B. P. 13 and 10.)

No. 19 April 11 Fill Charles E. Hayes' order of the 10th.

No. 20 April 12 Bought goods from L. A. Wright & Co., as per invoice.

No. 21 April 14 Gave L. A. Wright & Co. a promissory note at 10 days for $400 without interest, to apply on account. Write the note, using one of the blanks found in the package of Business Forms. (See voucher No. 18.) Place the note in the Notes Payable envelope. Make the entry in the journal. (B. P. 7 and 14.)

No. 22 April 14 Fill Ellis & Rand's order of the 13th.

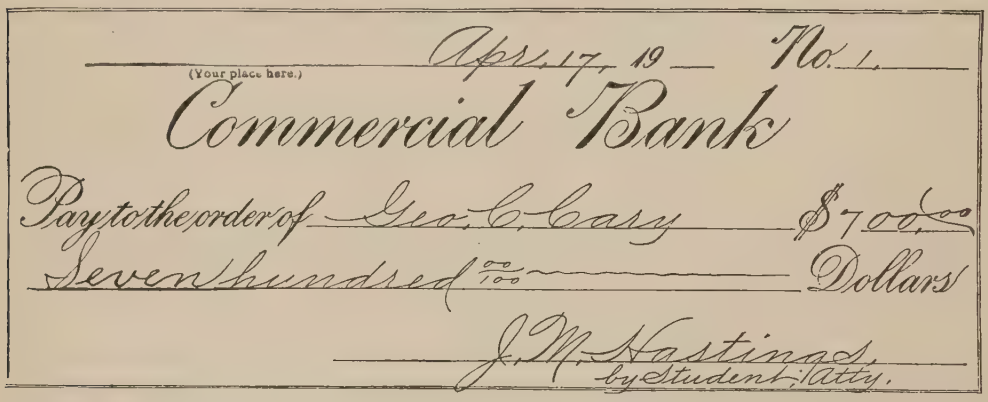
No. 23 April 16 Received check from Charles E. Hayes to apply on account. Enter on the receipts side of the cash book. Place the check in the Cash Drawer.

No. 24 Second Report — Prepare the report, being careful to include every detail asked for. See that the difference between the two sides of the cash book is equal to the amount of cash in the Cash drawer plus the bank balance as shown by the check book. The last two items — Notes Issued and Notes Received — may be found from the journal entries. Submit the report, together with such books and papers as may be called for, to the instructor.

No. 25 April 17 Gave George C. Cary a check for $700 to apply on account of his invoice received April 10.

Fill out the stub and subtract the amount of the check from the bank balance (in this case the amount of the first deposit), as shown in the illustration.

Fill out the check (see illustration).



Detach the check from the stub and place it in Cash Paid Out.

Make the cash book entry from the stub of the check book. When the entry has been made on the payments side of the cash book, draw a line across the stub to show that the cash book record has been made.

No. 26 April 19 Fill order of T. W. Bowen & Co., dated the 18th.

No. 27 April 20 Received check from T. W. Bowen & Co. to apply on their invoice of the 19th. This transaction is similar to No. 23.

No. 28 April 20 Received check from Ellis & Rand in payment of their note due to-day.

Before making an entry for cash received, always consider the purpose for which it is received. Do not credit Ellis & Rand. This is not a payment on account. (B. P. 15.)

Make the entry, file the check, and remove the note from the Safe envelope. Receipt the note by writing across the face:

Received Payment,
April 20, 19—
James M. Hastings
per (Student's name).

Place the note in Vouchers for Others.

No. 29 April 20 Gave George C. Cary a promissory note at 30 days without interest for the balance due him. Since the accounts are not posted at this time, it will be necessary to examine the purchases journal to ascertain the amount of your purchases from Cary, and in the cash book and journal to ascertain how much you have paid him on account of such purchases.

The transaction is similar to No. 21. Write the note and make the proper journal entry.

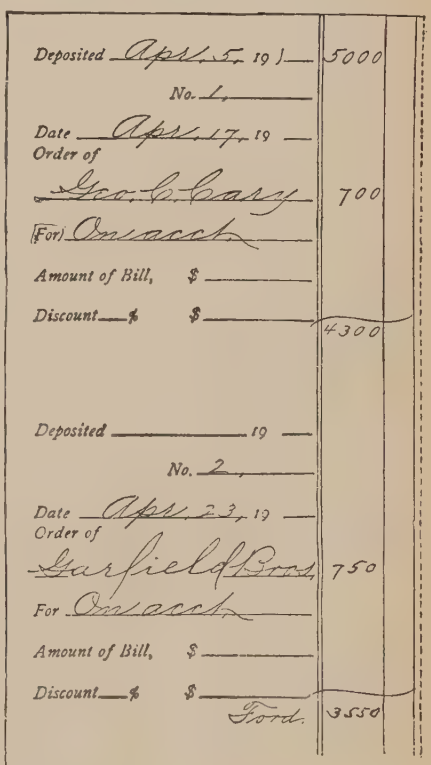
No. 30 April 23 Bought goods from Garfield Bros., as per invoice.

Check all invoice extensions. Make the entry in the purchases journal, and file the invoice.

No. 31 April 23 Give Garfield Bros. check for $750 to apply on account of invoice of this date.

This is check No. 2. Fill out the stub, subtract the amount of the check from the previous balance. (See illustration.) Write the check and make the cash book entry. Place all checks you write in the Cash Paid Out envelope.

Check Stub Filled Out



No. 32 April 24 Give L. A. Wright & Co. check in payment of our note dated April 14, which is due to-day.

Fill out the check stub. Be careful to write "Notes Payable" in the space telling what the check is for. Do not debit L. A. Wright & Co. You are not paying them on account, but you are paying your note. Write the check and make the cash book entry. (B. P. 16.)

Remove the note from the Notes Payable file, write "Paid, April 24, 19—" across the face, and place it in the Vouchers folder.

No. 33 April 25 Bought merchandise from Bernet & Craft as per invoice.

No. 34 April 26 Fill H. A. Woodbury's order of the 25th.

Make out the invoice, verify your calculations, enter in sales journal.

No. 35 April 27 Draw a check for $75 in favor of James Hastings. This money is for Mr. Hastings' personal use.

Observe previous instructions with regard to making out the check. Make the cash book entry and place the check in Cash Paid Out. (B. P. 12.)

No. 36 April 28 Fill order of T. W. Bowen & Co.

No. 37 April 30 Pay bill of City Carting Company by check. Note that the bill is for cartage on merchandise bought.

Write the check, make the cash book entry, and file the receipted bill. (B. P. 11.)

No. 38 April 30 Received a promissory note from T. W. Bowen & Co. for 15 days without interest to apply on account.

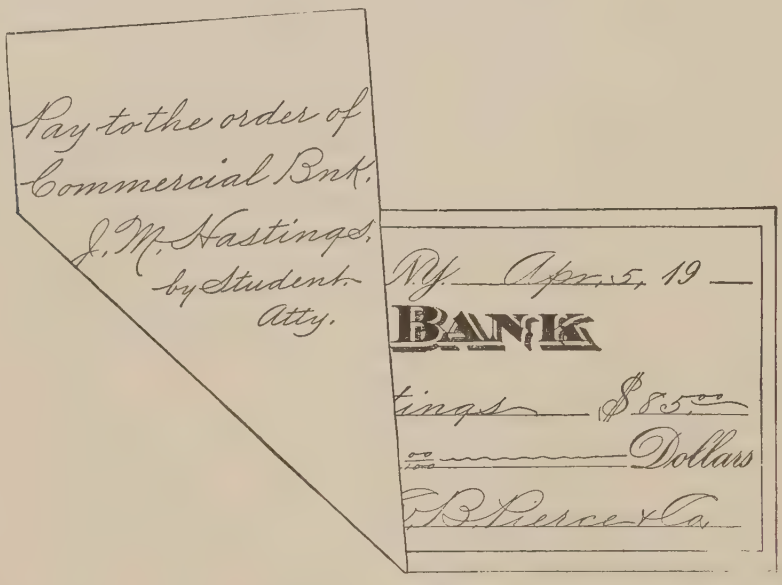
Make the journal entry, and file the note in the Cash Drawer envelope. (B. P. 13 and 10.)

No. 39 April 30 Fill H. A. Woodbury's order of the 29th.

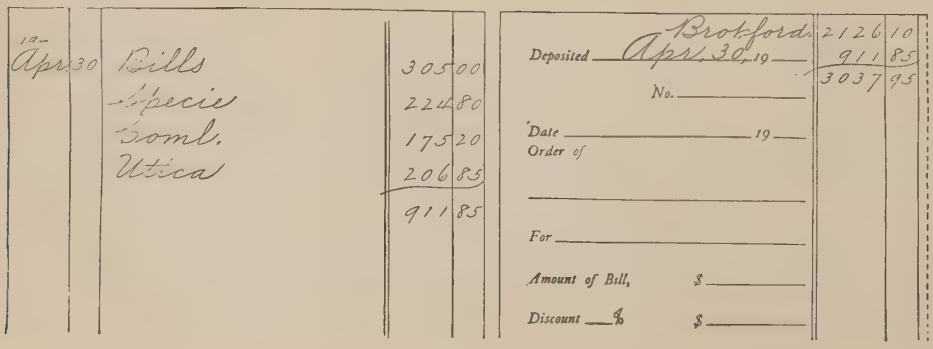
No. 40 April 30 Pay your month's salary as bookkeeper, $75, in currency, taking the amount from the Cash Drawer. (B. P. 3.)

No. 41 April 30 Remove all currency and checks from the Cash Drawer and make up deposit. Indorse the checks (see illustration above). Prepare the deposit slip. Under Specie

FORM OF CHECK, INDORSED



list the amount of your fractional currency (one-cent to fifty-cent pieces inclusive); and on the following lines the amount of each check separately. If the check is drawn on a bank in your city, list the name of the bank; but if the check is drawn on a bank in another city, list the name of the city.



Present the deposit slip with the currency and checks at the bank, or to the instructor, and receive proper credit in the bank book. Make a memorandum of your deposit on the reverse side of the check stub and write the total deposit in the money column. Add the amount of the deposit to the previous bank balance. (See illustrations.)

No. 42 THIRD REPORT — Prepare the report called for, making sure that your cash proves. Since all cash has been deposited, the difference between the two sides of the cash book must equal the balance in bank, as shown by the check book. Hand the report, together with books and papers, called for, to the instructor.

No. 43 Balance the cash book, foot and rule the purchases journal and sales journal. Give careful attention to every detail of the work. (See illustrations on pages 58, 59, 60, 61.)

No. 44 Open ledger accounts. Beginning on the first blank page in Blank No. 4, open accounts in the following order, leaving space as indicated.

Cash	½ page	James M. Hastings, Capital	½ page
Notes Receivable	½ "	James M. Hastings, Personal	½ "
Accounts Receivable, arranged alphabetically, each	⅓ "	Sales	½ "
Notes Payable	⅓ "	Purchases	½ "
Accounts Payable, arranged alphabetically, each	⅓ "	Inventory	½ "
		Freight and Cartage	½ "
		General Expenses	½ "
		Profit and Loss	½ "

Take the Accounts Receivable names from the sales journal, and the Accounts Payable names from the purchases journal. The addresses for the personal accounts will be obtained from the same sources.

No. 45 Post from the sales journal. Debit the personal accounts for all items; credit Sales for the total. Page all posting, writing S with the page number to indicate that the posting is from the sales journal.

No. 46 Post from the purchases journal. Credit the personal accounts for all items; debit Purchases for the total. Write P with the page number in the ledger folio column.

No. 47 Post from Cash Receipts. All items entered in the Account Credited column are posted to the credit of the respective accounts; the total is posted to the debit of Cash. Write C with the page number in the ledger folio column.

No. 48 Post from Cash Disbursements. All items entered in the Account Debited column are posted to the debit of the respective accounts; the total is posted to the credit of Cash. Write C with the page number in the ledger folio column.

No. 49 Post all items from the journal to the respective accounts. Write J with the page number in the ledger folio column.

No. 50 Check post all work before beginning a trial balance.

No. 51 Take a trial balance and submit it for inspection. When the trial balance is approved, copy it in the space indicated on the cover of Blank No. 3.

No. 52 Prepare a Profit and Loss statement. An inventory of merchandise on hand April 30 shows the following:

305 bbl. Apples	675 bu. Corn
200 bbl. Flour	800 bu. Oats
25 bu. Barley	1025 bu. Potatoes

Calculate the value of the inventory, using the latest cost price of each commodity as shown by the invoices. Do not use the selling prices.

Review Business and Financial statements, pages 37–39. Follow the form of Profit and Loss statement shown on page 39.

No. 53 Prepare a Balance Sheet, following the form shown on page 41.

If the statements agree; that is, if the investment (after the Student's personal account has been deducted) plus the net profit is equal to the assets minus the liabilities, submit them for approval, and when approved, copy in Blank No. 3, following the trial balance.

If the statements do not agree, check them with the trial balance. Every debit balance (except Student's personal account) must be used once either as a loss or as an asset, and every credit balance (except Student's capital) must be used once either as a profit or as a liability.

If any correction is made, or if any account is introduced in the statements that has not previously appeared in the journal, ledger or in the trial balance, the principle of debit and credit must be observed.

Therefore, the inventory of merchandise, which now appears for the first time as a factor in Mr. Hastings' records, must be used on both statements. It is debited on the balance sheet because it is an asset to the business. It is credited on the profit and loss statement because, from the bookkeeping standpoint, it increases the gross profit on sales.

By studying the Profit and Loss Statement on page 39, it is seen that the inventory of merchandise is credited, in effect, by subtracting it from Purchases, which is a debit entry.

In closing a set of books, or in making business statements at stated times during the year, adjustments, additions or corrections may be effected by first making journal entries, posting to the ledger, and then including them in the trial balance and statements, instead of making the adjustment or correction first in the statements, and then carrying it by closing entries as shown above, into the journal and finally posting to the ledger. The result is the same, the entry is the same, whichever method is used, but where there are many adjustments, the method of making the entry first in the journal insures greater accuracy, because the principle of debit and credit has been followed through the various books and through the trial balance; after which the bookkeeper merely utilizes the trial balance in making the statements, viz., asset and liability accounts are transferred to the balance sheet; loss and gain accounts, to the profit and loss statement.

The proprietary accounts are used in making the final comparison. If they are used in the body of the balance sheet, like other personal accounts, the result would be net profit instead of net worth.

No. 54 Make journal entries to close the ledger.

(*a*) Debit Inventory, credit Purchases.
(*b*) Debit Purchases, credit Freight and Cartage.
(*c*) Debit Sales, credit Purchases (with the cost of goods sold).
(*d*) Debit Sales, credit Profit and Loss.
(*e*) Debit Profit and Loss, credit General Expenses.
(*f*) Debit Profit and Loss, credit Student's personal account (with the net profit).
(*g*) Debit Student's personal account, credit Student's capital account.

The amount for the last entry will be the net profit, which is credited to the personal account in (*f*), minus the amount debited to the account at the end of the month, as shown in the trial balance.

Follow the Profit and Loss statement closely when making the closing entries.

No. 55 Post the closing entries to the ledger.

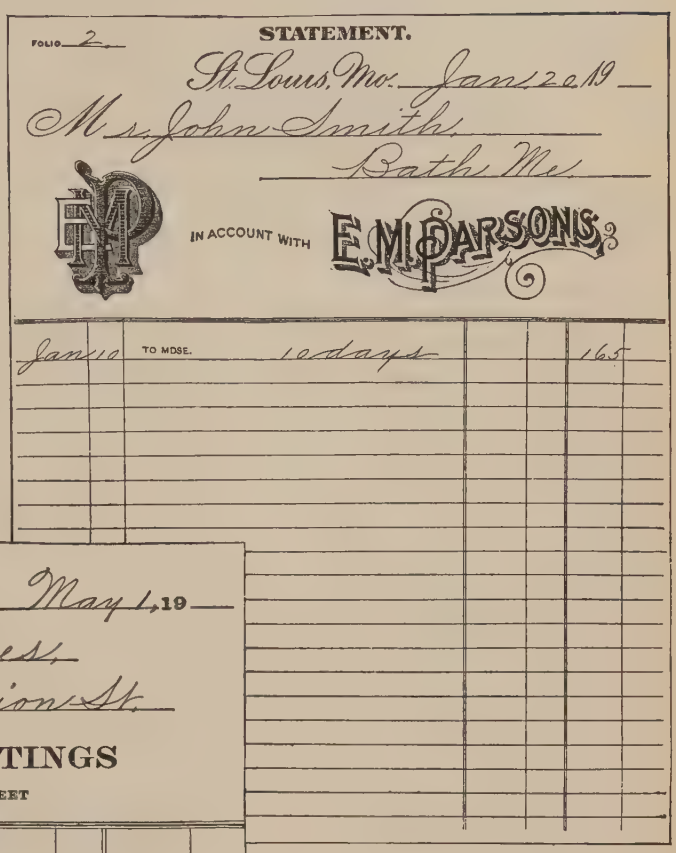
No. 56 Foot and rule all accounts closed by the foregoing journal entries. Rule all personal accounts which balance, including Student's personal account. Balance the capital account and the cash account.

No. 57 Take a proof trial balance, have it approved and copy following the statements.

STATEMENTS OF CUSTOMERS' ACCOUNTS

An INVOICE is an itemized statement of merchandise sold. The word bill is often used with the same meaning, but it is used preferably to designate a statement of services rendered. Unless the terms are cash, an invoice does not involve a request for immediate payment; a bill always does.

The word STATEMENT is also used with different meanings. Sometimes it is merely the statement of an amount due, like the upper illustration. In this form, it is a request for payment. Sometimes it is an abstract of the customer's account for any given period, like the lower illustration



STATEMENT.

FOLIO 2.

St. Louis, Mo. Jan 22 19

Mr. John Smith.

Bath Me.

IN ACCOUNT WITH E. M. PARSONS

Jan	10	TO MDSE.	10 days			165	

STATEMENT

FOLIO 3.

May 1, 19

(Your place here)

Mr. Chas. E. Hayes,

633 Union St.

IN ACCOUNT WITH J. M. HASTINGS

146 ELM STREET

Apr.	5	To Mdse.	459	50			
	11	" "	988		1447	50	
		Cr.					
Apr.	8	By Cash	300				
	16	" "	500		800		
					647	50	

It is a common practice to send each customer, at the first of the month, a statement showing the debit balance of his account to date, whether this balance is due or not, thus calling his attention to his indebtedness and enabling him to compare the statement with the account in his ledger and note any difference which may appear between his books and the statement. Customers' statements are prepared entirely from the ledger accounts, and the posting must be completed before the statements can be made out.

STATEMENT

Folio 3 St. Louis, Mo., June 1, 19—

Mr. Chas. E. Hayes,
633 Union St.

In Account With **J. M. HASTINGS**
146 Elm Street

May	1	Balance rend.	647	50		
	10	To Mdse.	125			
	19	" "	342	50	1115	
		Cr.				
May	15	By Cash			800	
					315	

No. 58 You may now prepare statements of accounts for all customers who owe you a balance.

Turn to Chas. E. Hayes' account in your ledger, and from it prepare a statement like the second form shown above, writing your place and the current year. Study the form carefully in all its details.

Prepare similar statements for all others who owe you a balance.

Take note that the first column in a statement is an item column and is not to be used unless there are two or more debit or credit items.

The following illustrates a form of statement required when an account has a debit balance at the beginning of the month for which the statement is made.

No. 59 Present your books to your teacher for inspection, after having carefully examined them yourself to see that all rulings are correct and that page marks, dates, etc. have not been omitted. It is less embarrassing to find your own errors and correct them than it is to have somebody else point them out to you. This practice also increases accuracy.

REVIEW QUESTIONS

1 What are the advantages of special books of original entry?
2 What should the difference between the two sides of the cash book show?
3 How is cash proved?
4 How is posting done from cash payments, receipts, sales journal, purchases journal?
5 In indexing posting, how is the book indicated from which an item is posted?
6 What do the following abbreviations mean? n/10, 2/10, a/c, C. O. D., B/L, S/D?
7 What is a commercial bank? How is an account opened at a bank?
8 What information should be recorded on the deposit slip?
9 Why is it desirable to keep a copy of the deposit slip?
10 What is a check? How are checks negotiated?
11 Why should the stub be filled out first, and what information should be recorded on it?
12 Of what use are canceled checks, and how should they be filed?
13 What is the purpose of the bank's statement to its depositors?
14 How is the bank statement reconciled with the depositor's account?
15 How should incoming invoices be treated?

ACCOUNTS INTRODUCED IN MAY

Interest and Discount. — Interest is money paid for the use of money. In whatever form it is found, it is money paid for the use of money. The distinction between interest and discount is not always easy to make. The distinction is pointed out in the following illustrations:

A borrows money on his own interest bearing note, to run 60 days. At the end of 60 days he pays the note and also pays for the use of the money. That is interest paid after the use has been received.

A borrows money from the bank on his non-interest bearing note, to run for 60 days. The bank deducts payment in advance for the use of the money and gives A the proceeds. That is interest paid in advance, and represents a very common practice.

A holds B's interest bearing note to run 60 days. At the end of that time B pays the face of the note and also pays for the use of the money. That is interest paid after the use has been received.

A holds B's 60-day note. At the end of 30 days B offers to pay it if A will make an allowance for the use of the money which he will receive 30 days before it is due. A accepts the offer, and B pays the note less the allowance. That is discount.

A's own 60-day note is held by B. A makes the same offer, which is accepted. That is discount.

From which it will be seen that the distinction may be stated thus: If money is paid for the use of money at the end of a loan period, or if it is paid at the beginning of the period, in order to get the loan, it is classified as interest. If money is paid for the use of money before the end of the loan period, in order to retire the loan, it is classified as discount.

Whether it is interest or discount, the calculation is the same. There is no difference between the bank discount for a given period and the interest for the same period.

Commercial notes are practically all for short terms — 30–60–90–120 days. The rate of interest varies with trade conditions, but the average rate is probably 6%, and all transactions in this text are to be figured at that rate unless otherwise specified.

For short periods the easiest and quickest way to compute interest is by the 60-day method. If it requires a dollar 360 days (common interest) to earn 6 cents, it must require it 60 days to earn one cent, from which:

Pointing off two decimal places to the left in any sum gives the interest for 60 days at 6%. From which it follows that pointing off three places gives the interest for 6 days; pointing off one place gives the interest for 600 days, and for 6000 days the interest equals the principal.

Thus, if the principal is \$750, the interest for 6000 days is \$750; for 600 days it is \$75; for 60 days it is \$7.50, and for 6 days it is \$.75. The interest for any part of 60 days is easily found.

When a non-interest bearing note is discounted, find the interest for the time which the note has yet to run, never for the time it has run.

A note for \$5000, dated May 1, to run 60 days, is discounted June 10. Find the discount. The note matures June 30, hence on June 10 it has 20 days to run. The discount is calculated for 20 days.

If an interest bearing note is discounted, first find the interest for the full time, and add this sum to the face of the note; then find the discount on the amount (face plus interest) for the unexpired time.

Suppose the above note is interest bearing. Find the interest for 60 days, \$50; add to the face, \$5050; calculate the discount for 20 days on \$5050; \$16.83. The difference between the

amount, $5050; and the discount, $16.83, or $5033.17, would be the proceeds, or cash value of the note.

The interest accounts to be used in May are Interest on Notes Receivable and Interest on Notes Payable.

Interest on Notes Receivable is an income. The entries will appear on the credit side, except at closing or when it is necessary to make an adjustment. The function of the account is to show the profit realized in the form of interest on notes and loans of other persons. The balance of the account shows a profit and is closed into the Profit and Loss account.

Interest on Notes Payable is an expense which arises from lack of sufficient funds, which makes it necessary to borrow money. The entries will appear on the debit side, except at closing or when it is necessary to make an adjustment. The function of the account is to show the cost of interest on obligations owed to others. The balance of the account shows a loss and is closed into the Profit and Loss account.

Commercial Discounts. — There are two classes of commercial discounts — the trade discount and the cash discount.

The trade discount is made from the list or published price of goods. It is often expressed in "series," as $25, less 25–20–10%. This class of discounts is not recorded on the books of either the buyer or the seller, because a trade discount is deducted at the time the goods are billed.

Cash discount is an allowance made for payment within a certain time — 10–20–30 days, as the case may be. This class of discounts, when taken advantage of, is recorded on the books of the buyer and of the seller, because it is not known at the time of billing whether the discount will be taken or not.

Cash discount is not calculated like interest, because, while there is a time element, or term of discount, the discount does not vary during the term of discount. If the term of discount is 10 days, and the payment reaches the creditor on the tenth day, the discount is just the same as it would have been on the first day; while on the eleventh day there is no discount at all. If the terms are 2/10, there is a discount of 2% at any time within the ten days, and no discount at all thereafter.

Cash discounts are recorded in two accounts, Discounts on Sales and Discounts on Purchases.

Discounts on Sales is an expense resulting from the inducement which the business makes to customers to make prompt payments. The entries will appear on the debit side except at closing or when it is necessary to make an adjustment. The function of the account is to record the allowances made to customers for prompt payment of bills. The balance of the account shows a loss and is closed into the Profit and Loss account.

Discounts on Purchases is an income, resulting from the ability of the business to pay its bills promptly. The entries will appear on the credit side, except at closing or when it is necessary to make an adjustment. The function of the account is to record the profit earned by the business by prompt payment of its invoices. The balance of the account shows a profit and is closed into the Profit and Loss account.

Selling Expenses. — The General Expenses account is subdivided into as many accounts as necessary to show the desired detail. Selling expenses is one of these subdivisions. The function of the account is to record that part of the expenses of the business which is directly chargeable to the selling operations. Such items as clerks' wages, advertising, traveling expenses, salesmen's salaries, and delivery expenses are selling expenses. A separate account,

however, may be kept with the different items. The entries will appear on the debit side, except at closing or when making an adjustment. The balance of the account shows a loss, and is closed into the Profit and Loss account.

Insurance Prepaid. — The premiums on fire insurance policies must be paid in advance. The use (protection) is received after the payment is made, hence it is prepaid. If a policy costs $240 per year in advance, at the beginning of the insurance term, the insurance company has received $240 from the business for which it has as yet rendered no service. At the end of the first month 1/12 of the $240 has been used up, and the amount remaining prepaid is $220. The $20 which has been used should be charged to the proper expense account, and credited to Insurance Prepaid. The function of the account, then, is to show the cost of prepaid insurance, and since that cost changes from day to day, the record of the Prepaid Insurance account is true only at the time of adjustment. The entries will appear on the debit side, except when an adjustment is made. The balance of the account shows an asset.

Real Estate. — Real Estate is a property account, the function of which is to show the cost of real estate owned by the business. In this account should be recorded the cost of land and buildings, and all expenses incurred in acquiring title, etc. Improvements and additions which increase the original value of the property are also recorded in this account. If any of the property is disposed of or destroyed, the entry for the cost of such property will appear on the credit side, so that the balance of the account shows the cost of property on hand, and is an asset.

Real Estate Expenses. — The cost of maintaining real estate is recorded in an account separate from Real Estate, otherwise the Real Estate account would not show the cost of the property on hand. Taxes, insurance, water, rent, repairs, etc., come under the head of Real Estate expenses. The function of the account is to show cost of maintenance of real estate. The entries will appear on the debit side except at closing or when it is necessary to make an adjustment. The balance of the account shows a loss, and is closed into the Profit and Loss account.

Furniture and Fixtures. — Furniture and Fixtures is a property account. The account is kept under different names, including Furnishings, Furniture and Equipment, Office Equipment, and Office Furniture. In it is recorded the cost of desks, machines, and office fixtures used in conducting the business. The cost entries will appear on the debit side of the account. If any furniture is disposed of or destroyed an entry for the cost of such furniture will appear on the credit side. The balance of the account shows the cost of furniture and fixtures on hand, and is an asset.

NOTE. — When no reserve for depreciation account is kept, Furniture and Fixtures is credited with the depreciation, in which case the balance of the account shows the value of the fixtures on hand, and is an asset.

Accruals and Prepayments. — At the time of closing, interest on borrowed money is frequently prepaid. Such prepaid interest is an asset and should be recorded in an asset account. The account used for this purpose is Interest Prepaid on Notes Payable. The balance of the account at closing is an asset, but since it is a continually diminishing asset (the prepaid interest being used up with the passage of time), it eventually finds its way into the losses. After closing it may be transferred to the Interest on Notes Payable account, or it may be adjusted from month to month.

RECEIPTS

DATE	L.F.	ACCOUNT CREDITED	EXPLANATION	ACCOUNTS REC. CR.	DIS. ON SALES DR.	NET RECEIPTS AND SUNDRY
19-						
May 1		Balance	on hand			225621
2		E. B. Adams	Invoice 4/3	500		500
4		Wm. Archer & Co.	Invoice 4/30	750	15	735
6		S. A. Doane & Co	On a/c	225		225
"		Sales	Cash sales			12572
9		E. H. Trinch & Co.	Invoice 5/1	365	730	35770
11		Notes Receivable	Note for 250 due today			250
"		Int. on Notes Rec.	90 days on above			375
15		W. A. Scott	On a/c	125		125
17		J. S. Sumner	Invoice 5/6	680	680	67320
"		Sales	Cash sales			7390
19		Weston & Hill	Invoice 5/15	36550	731	35819
21		Emerson & Sons	On a/c	500		500
25		Roberts Bros	Invoice 5/20	630	1260	61740
27		J. S. Sumner	On a/c	500		500
30		F. W. Garland	Invoice 5/26	38525	771	37754
				50275		
31		Discount on Sales Dr.			5672	
		Cash Dr. (767861 - 225621)		542240		
						767861
May 31	✓	Balance	on hand			86784

Interest on Notes Payable accrued is opposite in its nature from Interest on Notes Payable Prepaid. If a 60-day interest bearing note was given 20 days before the books were closed, there would be an accumulation of interest for 20 days. It is not due, and hence not paid, but it is a debt owed by the business, none the less. The balance of the account at closing shows a liability. It is a constantly increasing liability until it becomes due. After closing it may be transferred to the Interest on Notes Payable account, or it may be adjusted from month to month.

There are many other accounts of this nature, and the student will find a more extended treatment of them in the Advanced Section.

PAYMENTS

DATE	L. P.	ACCOUNT DEBITED	EXPLANATION	ACCOUNTS PAY. DR.	DIS. ON PUR. CR.	NET PAYMENTS AND SUNDRY
19						
May	1	General Expenses	May rent			100 00
	2	W. S. Clough & Co.	Invoice 4/30	120060	2401	117659
	4	Kidder & Hill	On a/c	400		400 00
	6	A. J. Lane	Invoice 5/2	96750	1836	94914
	7	Selling Expenses	Clerks' salaries			125 00
	"	General Expenses	Office salaries			100 00
	9	Rice, Miller & Co.	Invoice 5/1	890	1780	87220
	11	Notes Payable	Note favor J. Clune			420 00
	"	Int. on Notes Payable	60 days on above			420
	13	W. H. Stevens	On a/c	275		275 00
	14	Selling Expenses	Clerks' salaries			125 00
	"	General Expenses	Office salaries			100 00
	"	Freight and Cartage	Interstate Trans. Co.			3780
	18	Charles Hill & Co.	Invoice 5/14	68575	1372	67203
	20	A. J. Lane	Invoice 5/12	29190	584	28606
	21	Selling Expenses	Clerks' salaries			125 00
	"	General Expenses	Office salaries			100 00
	25	Winter Bros.	On a/c	36250		36250
	28	Selling Expenses	Clerks' salaries			125 00
	"	General Expenses	Office salaries			100 00
	29	F. A. Smith & Co.	Invoice 5/24	36250	725	35525
				543575		
	31	Discount on Purchases Cr.			8698	
	31	Cash Cr.				681077
						767861

SPECIAL COLUMN CASH BOOK

The bookkeeper has to record many transactions having to do with discounts on purchases and sales. This class of transactions may be illustrated by the following proposition. Assume that on April 30 Wm. Archer & Co. purchased an invoice of merchandise from the Student, amounting to $750, terms, 2/10. The sale must be entered in the sales journal for the full amount, since it is not known whether Wm. Archer & Co. will take advantage of the discount offered. Four days later a check is received from Archer & Co. for the amount, less 2%, $735. The entry, in whatever form it is made, must amount to this: Cash debited for the amount received, $735; Sales Discounts debited for the deduction, $15; and Wm. Archer & Co. cred-

ited for the amount of the invoice, $750. If the transaction were recorded in the journal, it would appear as follows:

Cash	735.	
Discounts on Sales	15.	
Wm. Archer & Co.		750.

If, however, the entry has to be made in a cash book of the form already used, certain difficulties arise. Cash must be debited only for $735, but Archer & Co. must be credited for $750. This can be accomplished by making two entries, as follows:

First, in Cash Receipts:

19—			
May 4	Wm. Archer & Co	Invoice of April 30	750.

Second, in Cash Payments:

19—			
May 4	Discounts on Sales	Invoice of Wm. Archer & Co., 2%	15.

The latter entry is a contra entry, made to adjust or correct the entry in cash receipts. This method is open to the objection that the entries, taken separately, are not true, since no such amount of cash was actually received, and none at all was paid out. The two entries must be read together. This method is sometimes used.

Or, an entry may be made in Cash Receipts for the sum received:

19—			
May 4	Wm. Archer & Co.	Invoice of April 30	$735.

and an entry made in the journal for the sales discounts, as follows:

May 4, 19—

Sales Discounts	15.	
Wm. Archer & Co.		15.
Allowed Archer & Co. 2% discount on invoice of April 30, paid to-day.		

This entry may be objected to on the ground that it separates the record into two parts. It is frequently used, and will be used in the following sets for discounts on notes.

If the cash book contains a special column for Accounts Receivable and Sales Discounts, the entry is simplified. (See third entry in the illustrated cash book.)

There are three columns on each side of the May cash book. On the cash receipts side, every amount credited to a personal account is entered in the Accounts Receivable column, whether a discount is allowed or not. Every amount to be charged to Sales Discounts is entered in the Sales Discounts column, and the amount of cash actually received is entered in the Net Receipts column. If the transaction to be recorded involves a discount, care must be used to see that the sum of the discount and the net receipt of cash equals the amount credited to the personal account. An error here will destroy the equality of the debits and credits.

Posting. — All items in the Accounts Receivable column are posted to the credit of the personal accounts named. The total of the Sales Discounts column is posted to the debit of that account and the total receipts for the period is posted to the debit of Cash. Note that the balance at the beginning of the period must be deducted from the total at the end of the period in order to get the amount of cash received during the month. The balance at the beginning of the period is already shown on the ledger, and if included in the posting at the end of the period, the equality of the debits and credits in the ledger will be destroyed.

All items in the Accounts Payable column are posted to the debit of the personal accounts named. The total of the Purchases Discounts column is posted to the credit of that account, and the total payments for the period is posted to the credit of Cash.

A special column may be provided for any account when the items affecting that account occur frequently enough to warrant a special column.

Exercise 11

On a sheet of three-column journal paper, make cash book headings like the ones shown in the illustration, and make cash book entries for the following transactions.

May 1 Balance of cash on hand, $3372.50.

2 Gave J. B. Howard check for May rent, $150.

3 Gave your check for $749.70 to Harvey & Lawson, in payment of invoice of April 30, less 2%. Amount of invoice, $765.

3 Received check from H. J. Pearson & Co., $264.60, in payment of your invoice of May 1, less 2%. Amount of invoice, $270.

4 Received check from Johnson & Johnson, on a/c, $500.

5 Gave your check to A. H. Woodbury, on a/c, $500.

6 Received check from J. H. Sears & Co., $784, in payment of your invoice of May 1, less 2%. Amount of invoice, $800.

7 Paid clerks' salaries, $175; office salaries, $125; advertising (charge Selling Expenses), $75.

8 Received check from A. H. Hoover, in payment of your invoice of May 2, less 2%. Amount of invoice, $335.80. Calculate the discount.

9 Gave your check to D. L. Hibner in payment of his invoice of May 3, less 2%. Amount of invoice, $1260.80.

10 Gave your check for $378.10 to J. E. Scott, in payment of invoice of May 3. No discount.

11 Received from A. E. Smith his check for $808, in payment of his note due to-day. Face of note, $800; interest $8. Credit Notes Receivable at face value. Make a separate entry for the Interest on Notes Receivable.

12 Gave your check for $507.50 in payment of interest-bearing note held by E. W. Cole. Face of note, $500. Debit Notes Payable at face value. Make a separate entry for Interest on Notes Payable.

13 Gave A. W. Robinson your check for $700, on a/c.

14 Received from W. L. Barnes his check for $485, in payment of your invoice of May 10, less 3%. Amount of invoice, $500.

15 Paid clerks' salaries, $175; office salaries, $125; freight bills, $72.50.

16 Gave your check for $857.70 to L. M. Nichols, in payment of his invoice of May 10, less 2%. Amount of invoice, $875.20.

17 Received check from Burrows Bros. in payment of your invoice of May 12, less 2%. Amount of invoice, $850.

21 Gave your check for $748.23 to Brown Bros., in payment of their invoice of May 15, less 2%. Amount of invoice, $763.50.

22 Paid clerks' salaries, $175; office salaries, $125.

23 Received check from F. R. Vosburg in payment of your invoice of May 16, less 2%. Amount of invoice, $265.30.

25 Received check from Carlisle & Co. for $563, in payment of their note due to-day. Credit Notes Receivable.

HENRY F. ADAMS' BUSINESS — MAY

Having been offered a higher salary and a better opportunity for advancement, you have accepted a position as bookkeeper for Henry F. Adams, who is about to commence business as a wholesale dealer in Tea, Coffee, and Spices, at 246 Main St., your city. Your salary is to be $85 per month. Mr. Adams will do all the buying and fix all selling prices of the goods, and will spend much of his time on the road. You will attend to the filling of orders, and have full charge of the books of the business. Mr. Adams has given you a power of attorney.

Selling Price List. — The instructor will assign a selling price list from the table given below.

Books Used. — The set of books used will comprise a general journal, sales journal, purchases journal, special column cash book, and ledger. All cash transactions will be entered in the Special Column Cash Book, as illustrated on pages 81 and 82.

Terms of Sale. — The standard terms of sale adopted for this exercise are 2/10, n/30, although some deviation is made from these terms in the cases of certain customers and some commodities.

SELLING PRICE LISTS FOR MAY

			1	2	3	4	5	6	7	8	9	10	11	12	13
Japan	Hf. Ch.	lb. 60	.40	.38	.37	.36	.25	.26	.41	.35	.34	.39	.24	.25	.30
Oolong	"	50	.55	.60	.61	.62	.73	.66	.72	.70	.71	.56	.63	.62	.57
Ceylon	Case	50	.60	.58	.55	.65	.45	.50	.53	.55	.45	.40	.57	.56	59
Y. Hyson	Hf. Ch.	70	.35	.37	.38	.39	.50	.49	.34	.40	.41	.36	.51	.50	.45
Eng. Breakfast	"	60	.50	.45	.44	.43	.32	.39	.33	.35	.34	.49	.42	.43	.48
Mocha	Bale	150	.25	.25^2	.24	.24^2	.26^2	.25^2	.24^2	.27	.28^2	.29	.30	.32	.28
Java	Mat	75	.28^2	.25	.25^2	.26^2	.29	.30	.30^2	.29^2	.27^2	.26	.27	.24^2	.24
Maracaibo	Bag	125	.18^2	.18	.19^2	.19	.17	.18	.19	.16^2	.15	.14^2	.13^2	.11^2	.15^2
Rio	"	125	.14^2	.18	.17^2	.16^2	.14	.13	.12^2	.13^2	.15^2	.17	.16	.18^2	.19
W. Pepper	Box Pail	10 25	.30	.31^2	.29	.28	.31	.33^2	.30	.33	.32	.30^2	.26^2	.28	.29
Cinnamon	Box Pail	10 25	.35	.36	.33	.34	.37	.38	.33	.32	.35	.36	.37	.34	.34^2
Cloves	Box Pail	10 25	.20	.18^2	.21	.22	.19	.16^2	.20	.17	.18	.19^2	.23^2	.22	.21
Nutmegs			.70	.69	.72	.71	.68	.67	.72	.73	.70	.66	.68	.71	.70^2
Ginger	Box Pail	10 25	.30	.32	.35	.25	.45	.40	.37	.35	.45	.50	.33	.34	.31

The small index figures used in the above price lists indicate "fourths." 25^1 equals $25\frac{1}{4}$. 25^2 equals $25\frac{1}{2}$. 25^3 equals $25\frac{3}{4}$.

Business Practice. — During the month, the student will handle all incoming papers and currency, attend to the banking, and issue all outgoing checks, bills, receipts, etc. It is expected that this work will be given most careful attention and that all business papers will be written with care and exactness.

SELLING PRICE LISTS FOR MAY — Continued

			14	15	16	17	18	19	20	21	22	23	24	25
Japan	Hf. Ch.	lb. 60	.32	.38	.40	.34	.29	.31	.33	.27	.28	.26	.30	.29
Oolong	"	50	.55	.49	.52	.58	.64	.67	.65	.72	.57	.69	.66	.58
Ceylon	Case	50	.61	.52	.47	.43	.39	.38	.41	.44	.37	.36	.42	.46
Y. Hyson	Hf. Ch.	70	.43	.37	.35	.41	.46	.44	.42	.48	.47	.49	.45	.46
Eng. Breakfast	"	60	.50	.56	.53	.47	.41	.38	.40	.33	.48	.36	.39	.47
Mocha	Bale	150	.28^2	.27^2	.30^2	.25	.31	.28	.26	.27	.29^2	.24	.28	.26^2
Java	Mat	75	.26^2	.28^2	.25^2	.28^2	.31^2	.27^2	.29	.24	.26^2	.23	.24^2	.29^2
Maracaibo	Bag	125	.15	.16	.13	.18^2	.12^2	.15^2	.17^2	.16^2	.14	.19^2	.15^2	.17
Rio	"	125	.16^2	.14^2	.17^2	.14^2	.11^2	.15^2	.14	.19	.16^2	.20	.18^2	.13^2
W. Pepper	Box Pail	10 25	.27	.25	.32	.31	.28	.33	.28^2	.27^2	.28	.29	.31	.27
Cinnamon	Box Pail	10 25	.40	.38	.32	.36	.41	.37	.39	.42	.40	.35^2	.33	.34
Cloves	Box Pail	10 25	.23	.25	.18	.19	.22	.17	.21^2	.22^2	.22	.21	.19	.23
Nutmegs			.65	.67	.73	.69	.64	.68	.66	.63	.65	.69^2	.72	.71
Ginger	Box Pail	10 25	.29	.38	.43	.47	.51	.52	.49	.46	.53	.54	.48	.44

The small index figures used in the above price lists indicate "fourths." 25^1 equals $25\frac{1}{4}$. 25^2 equals $25\frac{1}{2}$. 25^3 equals $25\frac{3}{4}$.

TRANSACTIONS

No. 1 May 1, 19— Henry F. Adams invests $10,000 in the business which he has just begun. Make an entry in cash receipts, crediting Henry F. Adams, Capital, and placing the amount in the net receipts column.

In addition to the cash book entry for the investment, an explanatory statement should be made in the journal, specifying the owner, the nature of the business, the location, and the amount invested. (See illustration, p. 15.)

Open an account with the Merchants National Bank, depositing check for $9800. The check is a part of Mr. Adams' investment. Enter the deposit on the stub of the check book.

No. 2 May 1 The National Real Estate Company owns the building at 246 Main Street. Your lease is at a monthly rental of $100. Pay the rent for May by check, take a receipt from the owners, and make the proper entry in cash payments. Debit General Expenses.

No. 3 May 2 Bill of the Upton Coal Company for ten tons of coal is received. Pay by check and make proper cash book entry. Entry similar to that for No. 2.

Expense bills and bills for furniture and fixtures, supplies, etc., bought for use in the business are not recorded in the purchases journal. This book is only for recording merchandise invoices.

No. 4 May 2 Bought merchandise of West, Stone & Co. as per invoice. Verify the extensions and enter in the purchases journal.

No. 5 May 2 Bought merchandise of L. Hennes & Co., terms, 60-day note. Make an entry in the purchases journal. File the invoice. Write a note in favor of L. Hennes & Co., and make the proper journal entry. (B. P. 7 and 14.)

No. 6 May 2 Bought merchandise of Shields Bros., as per invoice. Enter in the purchases journal. As the terms are 2% cash, pay the invoice at once by check, deducting the discount. Fill out the stub, deduct the amount from the deposit, write the check, and make the cash book entry.

B. P. 32. — Credit DISCOUNTS ON PURCHASES *with all discounts allowed to the business for prompt payment of invoices.*

In this transaction there are two credits and one debit. Shields Bros. are debited for the face of the invoice, because the invoice is completely paid. Discounts on purchases is credited and cash is credited for the amount of the check. The sum of the two credits equals the debit.

No. 7 May 3 Fill order of A. W. McKey, and make entry in the sales journal. In making out the invoice, follow the form of the West, Stone & Co. invoice in transaction No. 4. Note the tabulation of pounds and prices. Regard this as sale No. 1, placing that number in the Sales No. column; also place the number in the upper left corner of the invoice. Number each succeeding sale in consecutive order.

No. 8 May 3 Fill F. C. Tenney's order. Terms: 2/10, n/30. Entry similar to that for No. 7.

No. 9 May 4 Check received from F. C. Tenney in payment of invoice of the 3d, less 2% discount. F. C. Tenney has taken advantage of the discount offered in the sale of May 3. It must be understood that while the check is for a smaller sum than the invoice, the latter is paid, and F. C. Tenney must be credited not for the amount of the check, but for the amount of the invoice for which it pays.

B. P. 33. — Debit DISCOUNTS ON SALES *with discounts allowed to customers for prompt payment of invoices.*

In this transaction there are two debits and one credit. The discount is allowed to a customer and is debited. F. C. Tenney is credited for the amount of the invoice. Cash is debited for the amount received. The sum of the debits must equal the credit.

No. 10 May 4 Fill Dickson & Young's order.

No. 11 May 4 Bill of Scranton, Wetmore & Co. for blank books, stationery, and office supplies. Pay by check. Do not charge Scranton, Wetmore & Co. (B. P. 3.)

No. 12 May 5 Bill of Hayden Furniture Company for safe and office furniture for use in the business. Pay the bill by check and make proper cash book entry.

B. P. 34. — Debit FURNITURE AND FIXTURES *with the cost of furniture and equipment purchased for use in conducting the business.*

No. 13 May 5 The National Real Estate Company has offered the building at 246 Main Street for sale at $12,000 cash, and as Mr. Adams regards this a fair price, he has negotiated for its purchase. The rent paid May 1 is to be allowed to apply on the purchase price.

In order to make the cash payment, he has applied to the Merchants National Bank for a loan of $5000. The bank is willing to discount Mr. Adams' note for that amount if he can furnish satisfactory personal security. James D. Branson, a business acquaintance of Mr. Adams,

has agreed to indorse Mr. Adams' note for $5000, and this security is acceptable to the bank. The note is drawn for 4 months, and will be similar to the following illustration:

$5000.00 (Your place here.) May 5, 19—

Four months after date I promise to pay to the order of James D. Branson

Five thousand 00/100 Dollars

at Flour City Bank

Value received

No. 2 Due Sept. 5, 19—

H. F. Adams,
by Student, atty.

Maverick & Wissinger, 176 Fulton St. N.Y.

The note is made payable to James D. Branson, and before it can be negotiated it must have his indorsement. Your teacher will act in place of Mr. Branson and indorse the note.

The note is written for 4 months, but the bank will count the exact number of days, which is 123. Calculate the interest for that time. This is interest paid in advance. Make out a discount memorandum similar to the form shown in the illustration.

Leave the note, with discount memorandum attached, at the school bank, if there is one, or place it in the Notes Payable file.

Add the amount of the proceeds to the check book balance, stating the source from which the money is received. (See illustration.)

Form of Discount Memorandum

DISCOUNT MEMORANDUM.

Date May 1, 19—

Discounted for B. M. Parker

Maker B. M. Parker

Face 3000.00 Int. —— Total ——

Disc. 9 ds. 45.00 Coll. —— Total ——

Proceeds 2955.00

Discount —% $ ——

To Our note, 5000.
dis. 102.50 | 4897 | 50

Deposited —— 19—

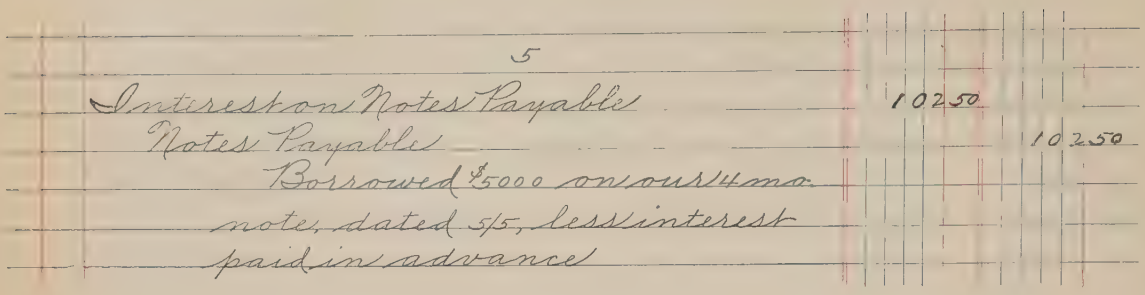
Make the entry in cash receipts for the proceeds of the note, as shown in the illustration below.

5	Notes Payable	Note 5/5 at 4 mo.			4897 50

Make an entry in the journal for the interest paid in advance.

B. P. 35. — *Debit* INTEREST ON NOTES PAYABLE *with all interest paid on notes, whether paid in advance or at maturity.*

The journal entry should be as follows:


5
Interest on Notes Payable 102 50
Notes Payable 102 50
Borrowed $5000 on our 4 mo.
note, dated 5/5, less interest
paid in advance

With these two entries, Cash is debited for the amount received; Notes Payable credited with the face of the note; and Interest on Notes Payable debited with the interest paid in advance to the bank.

No. 14 May 5 Draw a check in favor of the National Real Estate Company for the purchase price of the property, $12,000, less $100 rent which is to be applied on the purchase price. The deed for the property has been received and recorded in the office of the County Clerk, and filed by the attorney for Mr. Adams. This necessitates opening an account with Real Estate.

B. P. 36. *— Debit* REAL ESTATE *with the cost of buildings and lands, and with all expenses incurred in obtaining title thereto.*

Make an entry in cash payments debiting Real Estate with the amount of the check.

The amount charged to General Expenses in No. 2 should now be transferred to Real Estate, since that payment of $100 has been considered as part payment on the property. This is a part of the original cost of the property, hence the debit is determined by B. P. 36. Credit General Expenses, and state clearly in the explanation space the reason why the transfer is made. This entry will cancel the charge to General Expenses.

No. 15 May 6 Adjustment sheet and bill from the lawyer who made a search of the title, passed the papers, made out the deed, and had it recorded. Pay the bill by check and make the entry for it. (B. P. 36.)

No. 16 May 6 Invoice of the Westen Tea & Spice Co.

No. 17 May 6 Fill order from A. A. Knowles & Co. Note terms as requested in their order. Note accompanies the order. Entries in sales journal and journal.

No. 18 May 8 Fill order from F. C. Tenney.

No. 19 May 8 FOURTH REPORT — Prove cash, fill out the report called for, and submit the report to the instructor for inspection.

Cash proves if the cash on hand equals the amount of cash shown to be on hand by the cash record.

Cash receipts − cash payments = cash in bank + cash in cash drawer or safe.

That cash proves is not to be taken as conclusive evidence that your account is correct, but only that your actual handling of cash has agreed with your cash record.

No. 20 May 9 Pay West, Stone & Co.'s invoice of April 30, taking advantage of the discount. Cash book entry similar to that for No. 6. Be sure that the amount in the first column minus the amount in the second column equals the amount of the check recorded in the third column.

No. 21 May 9 Fill order from Fletcher Bros. Terms: 2/10, n/30.

No. 22 May 10 Invoice of merchandise received from Shields Bros.

No. 23 May 10 Received check from Fletcher Bros. in payment of invoice of the 9th, less 2%. Entry similar to that for No. 9.

No. 24 May 11 Received $200 currency from Dickson & Young to apply on account of invoice of the 4th. Enter the amount in the first and third columns.

No. 25 May 11 Deposit $200 in currency and the checks on hand. Enter in check book and add to last balance.

No. 26 May 12 Fill A. W. McKey's order.

No. 27 May 14 Mr. Adams draws by check $100 for personal use. (B. P. 12.)

No. 28 May 14 Mr. Adams has placed insurance of $5000 on his building and $3000 on his stock of goods in the Equitable Fire Insurance Company, for one year. Write a check for the premium of $200, $120 of which is premium on his building and $80 on his stock.

B. P. 37. — Debit INSURANCE PREPAID *with cost of insurance placed upon real estate, stock of goods, or other property.*

The entry is for the premium, not for the policies.

Observe there are two policies included here; one on real estate and one on stock. The cost of insurance on real estate is a real estate expense, while the cost of insurance on goods is a selling expense. At closing time, the Insurance Prepaid account must be adjusted, and the expense accounts charged with the cost of insurance.

No. 29 May 15 Fill the order from F. H. Randall & Co.

No. 30 May 15 Received check from F. C. Tenney on account of bill of the 8th. Enter the amount in the first and third columns.

No. 31 FIFTH REPORT — Prove the cash and prepare the report called for.

No. 32 May 17 Rice & Pond of Georgetown, Ohio, have sent you an order and have given satisfactory references. Bill them the goods at our regular terms.

These goods are shipped by freight and a shipping order would be filled out and given to the railroad company.

A *bill of lading* is an instrument issued by the transportation company to a shipper acknowledging the receipt of goods and stating the conditions under which they will be carried. The bill of lading is of importance for the reason that its possession is regarded as evidence of the ownership of the goods. Because the bill of lading stands for the goods, the title to goods in transit often changes hands through the negotiation of the bill. In order to facilitate such transfer and avoid loss and misunderstanding, a Uniform Bills of Lading Act was passed by Congress in 1908. This act designated two forms of such bills:

(*a*) *A "straight" bill of lading* non-negotiable in form, to be used in connection with direct shipments, is made out in sets of three, consisting of the bill of lading, the shipping order, and the memorandum acknowledgment. The original of the set, or the bill of lading, is sent to the consignee, the shipping order is retained by the transportation company, and the acknowledgment is filed by the consignor. Goods shipped by "straight" bill of lading may be delivered to consignee without surrender of the bill of lading.

(*b*) *Draft with Attached Bill of Lading.* — The principal use of the order bill of lading is where the shipper desires to collect from consignee in advance of the delivery of goods to him. This is usually known among business men as "Shipper's Order," and accomplishes the same purpose when goods are shipped by freight, as C. O. D. by express does when shipment is made by express. The name of the bank through which the collection is to be made is inserted after

Straight Bill of Lading

Uniform Bill of Lading—Standard form of Straight Bill of Lading approved by the Interstate Commerce Commission by Order No. 787 of June 27, 1908.

Interstate Transportation Company

STRAIGHT BILL OF LADING—ORIGINAL—NOT NEGOTIABLE.

Shippers No. .....

Agents No. .....

RECEIVED subject to the classifications and tariffs in effect on the date of issue of this Original Bill of Lading,

at Philadelphia May 17, 19

from W. F. Adams the property described below, in apparent good order, except as noted (contents and condition of contents of packages unknown), marked, consigned and destined as indicated below, which said Company agrees to carry to its usual place of delivery at said destination, if on its road, otherwise to deliver to another carrier on the route to said destination. It is mutually agreed as to each carrier of all or any of said property over all or any portion of said route to destination, and as to each party at any time interested in all or any of said property, that every service to be performed hereunder shall be subject to all the conditions, whether printed or written, herein contained (including conditions on back hereof) and which are agreed to by the shipper and accepted for himself and his assigns.

The Rate of Freight from ..... *to* ..... *is in Cents per 100 Lbs.*

If..Times 1st	If 1st Class	If 2nd Class	If Rule 25	If 3d Class	If Rule 26	If Rule 28	If 4th Class	If 5th Class	If 6th Class	If Special per.....	If Special per.....

(Mail Address—Not for purposes of Delivery.)

Consigned to Rice & Pond

Destination, Georgetown State of Pa. County of .....

Route, ... Car Initial ..... Car No. .....

NO. PACKAGES	DESCRIPTION OF ARTICLES AND SPECIAL MARKS	WEIGHT (Subject to correction)	CLASS OR RATE	CHECK COLUMN
15	hf. chts. Tea	1050		
8	bags Coffee	1045		
5	bxs. Pepper	55		
5	bxs. Cloves	55		

If charges are to be prepaid, write or stamp here, "To be Prepaid."

.....

Received $.....
to apply in prepayment of the charges on the property described hereon.

.....
Agent or Cashier.

Per .....
(The signature here acknowledges only the amount prepaid.)

Charges Advanced:

$.....

W. F. Adams Shipper. ..... Agent.

Per R. T. Brown Per .....

(This Bill of Lading is to be signed by the shipper and agent of the carrier issuing same.)

"Consigned to Order of" and the name of consignee after "Notify." A draft is drawn on the consignee for the amount of the shipment in favor of the bank and attached to the bill of lading. The draft with bill of lading attached is left with the bank for collection. Consignee cannot obtain possession of bill of lading unless he pays the draft, and without the bill of lading he cannot get possession of the goods. Thus we have C. O. D. by freight. The invoice is sent to consignee in the regular way with terms B. L. S. D.

Order Bill of Lading

Book Form 44A-Dup.
10-15-20M Sets*

Uniform Bill of Lading--Standard form of Order Bill of Lading approved by the Interstate Commerce Commission by Order No. 787 of June 27, 1908.

Interstate Transportation Company

Shippers No. _____

ORDER BILL OF LADING — ORIGINAL.

Agents No. _____

RECEIVED, subject to the classifications and tariffs in effect on the date of issue of this Original Bill of Lading,

at Philadelphia May 17, 191 .

from N. F. Adams the property described below, in apparent good order, except as noted (contents and condition of contents of packages unknown), marked, consigned and destined as indicated below, which said company agrees to carry to its usual place of delivery at said destination, if on its road, otherwise to deliver to another carrier on the route to said destination. It is mutually agreed, as to each carrier of all or any of said property over all or any portion of said route to destination, and as to each party at any time interested in all or any of said property, that every service to be performed hereunder shall be subject to all the conditions, whether printed or written, herein contained (including conditions on back hereof) and which are agreed to by the shipper and accepted for himself and his assigns.

The surrender of this Original ORDER Bill of Lading properly indorsed shall be required before the delivery of the property. Inspection of property covered by this bill of lading will not be permitted unless provided by law or unless permission is indorsed on this original bill of lading or given in writing by the shipper.

The Rate of Freight from _____

to _____ *is in Cents Per 100 Lbs.*

IF...Times 1st	IF 1st Class	IF 2d Class	IF Rule 25	IF 3d Class	IF Rule 26	IF Rule 28	IF 4th Class	IF 5th Class	IF 6th Class	IF Special Per.....	IF Special Per.....

(Mail Address—Not for purposes of Delivery)

Consigned to ORDER OF First Natl Bank

Destination, Georgetown State of Pa. County of _____

Notify Rice & Pond

At Georgetown State of Pa. County of _____

Route _____ Car Initial _____ Car No. _____

NO. PACKAGES	DESCRIPTION OF ARTICLES AND SPECIAL MARKS	WEIGHT (Subject to Correction)	CLASS OR RATE	CHECK COLUMN
15	hf. chts. Tea	1050		
8	bags Coffee	1045		
5	bxs. Pepper	55		
5	bxs. Cloves	55		

If charges are to be prepaid, write or stamp here "To be Prepaid."

Received $_____ to apply in prepayment of the charges on the property described hereon.

Agent or Cashier.

Per. _____

(The signature here acknowledges only the amount prepaid.)

Charges Advanced:

$_____

N. F. Adams Shipper. _____ Agent.

Per R. I. Brown Per _____

(This Bill of Lading is to be signed by the shipper and agent of the carrier issuing same.)

Transportation companies make out the bills of lading for single shipments, but the business house making frequent shipments usually obtains a supply of the forms from the transportation company, the forms being made out in the shipping department of the consignor. The two forms of bills of lading are shown on the preceding pages.

No. 33 May 18 Give Westen Tea & Spice Co. a check for $800 to apply on account of invoice of the 5th. Enter the amount in the first and third columns.

No. 34 May 18 A telegraph order has been sent to West, Stone & Co. for certain merchandise which is needed immediately. Pay the charge of 50¢ for the telegram in currency, and make proper entry.

No. 35 May 20 Fill the order of E. Mason & Co. of Milford, Ohio. Terms: 30 days net.

No. 36 May 20 Pay Allen & Parker's bill by check. As this is an item of expense incurred in connection with the real estate, debit Real Estate Expenses.

B. P. 38. — Debit REAL ESTATE EXPENSES *with the expenses due to the maintenance of real estate used for business purposes.*

No. 37 May 20 Received note from Dickson & Young to apply on account.

No. 38 May 20 Fill Dickson & Young's order of this date. Terms: On account.

No. 39 May 21 Telegraph order from James H. Vincent; bill the goods net cash. The goods are sent by express collect.

No. 40 May 22 Fill Rice & Pond's order. Terms: On account. Make entries for the sale and for the check received on account. Enter the amount of the check in the first and third columns.

No. 41 May 23 Invoice of West, Stone & Co. for goods ordered on the 18th.

No. 42 May 23 Invoice of Charles K. Fox.

No. 43 May 23 Cash sale to G. H. Thomas of a sample lot of goods. As this sale is not to a regular customer, make the entry directly in the cash book.

Make no entry in the sales journal. (B. P. 9.)

No. 44 May 23 SIXTH REPORT.

No. 45 May 24 The express company remits for the goods shipped to J. H. Vincent on the 21st by express money order, less 25¢, their charge for collection.

On the receipts side of the cash book, credit Vincent for the amount of the bill, $10; on the payments side of the cash book, debit General Expenses for 25¢, the amount charged for collection. The difference between the two entries equals the amount of the money order. Express money orders are treated as cash, and may be deposited with checks and other cash items.

No. 46 May 24 A telegraph order has been sent to L. Hennes & Co. for certain merchandise which is needed immediately. Pay the charge for the telegram, 35¢, in currency.

No. 47 May 24 Fill this order from A. A. Knowles & Co., at the usual terms.

No. 48 May 25 Deposit the checks and money order on hand, and $100 in currency.

No. 49 May 25 Send Westen Tea & Spice Co. check for $400 to apply on account.

No. 50 May 26 Invoice of L. Hennes & Co. ordered on the 24th.

No. 51 May 26 Fill the telegraphic order from E. Mason & Co. at usual terms.

No. 52 May 26 Received check from A. A. Knowles & Co. in payment of note due to-day with interest.

Note that the check is for a larger sum than the note. The difference between the face of the note and the face of the check represents the amount earned by the business as interest. Verify the calculation by finding the interest on $500 for 20 days, the time the note had to run.

Remember to credit Notes Receivable, not for the amount of the check, but for the face of the note.

B. P. 39. — Credit INTEREST ON NOTES RECEIVABLE *with interest received on notes, loans, and overdue accounts.*

This transaction requires two entries in the cash book, both on the receipts side. Credit Notes Receivable for the face of the note; credit Interest on Notes Receivable for the interest.

No. 53 May 26 Pay the invoice of Charles K. Fox of the 23d by check, less discount.

No. 54 May 26 Fill the order from S. E. Kingsley, a new customer. Usual terms.

No. 55 May 27 Received check for $600 from A. A. Knowles & Co. to apply on bill of the 24th. The terms of sale were 2/10, n/30, and as the term of discount has not yet expired, they ask to be allowed 2% discount on as much of the bill as this check will pay, as they are unable to pay the entire bill at this time.

In this transaction $600 is the amount left from a certain sum after 2% has been deducted, or $600 is 98% of the amount which should be credited to A. A. Knowles & Co. $600 divided by 98% will give the amount of the credit, and the discount will be the difference between $600 and the quotient obtained. To prove the accuracy of your division, take 2% of the amount you find. It should equal the discount. Enter in the cash receipts column, $600; in the Discount on Sales column, $12.24; in the Accounts Receivable column, $612.24.

No. 56 May 28 Fill order from E. Mason & Co.; usual terms.

No. 57 May 28 Invoice of merchandise received from Charles K. Fox.

No. 58 May 28 Received check from S. E. Kingsley for the trial shipment of the 26th, less discount.

Credit Kingsley for the face of the bill. Refer to your sales book entry for the amount.

No. 59 May 29 Invoice received from West, Stone & Co.

No. 60 May 29 Send a check for $500 to Shields Bros. to apply on account of invoice of the 6th inst.

No. 61 May 30 Pay bill of the City Carting Company by check. (B. P. 11.)

No. 62 May 31 Note received from A. W. McKey with interest to apply on his account.

A. W. McKey's account is due and payable. He postpones payment but gives his note. The business is entitled to receive interest on overdue accounts.

No entry for interest as no interest is received at this time.

No. 63 May 31 Deposit all checks and currency on hand.

No. 64 May 31 Pay invoice of West, Stone & Co. of the 22d, less discount.

No. 65 May 31 Mr. Adams has withdrawn on memorandum during the month for his personal use, merchandise to the amount of $30. (B. P. 18 and 19.)

No. 66 May 31 Draw a check in favor of Pay Roll for $200, covering expenses of clerks for the month.

B. P. 40. — *Debit* SELLING EXPENSE *with all expenses incurred directly in the sale of merchandise, including wages of clerks, advertising, salesmen's salaries, traveling expenses, delivery expenses, etc., unless separate accounts are kept for such expenses.*

Draw a check for your own salary for the month. (B. P. 3.)

Mr. Adams allows himself a salary of $200 monthly against which he draws for personal and family expenses. He does not wish to draw the money due on this account now, but an entry must be made showing that it is due him and that the business has incurred that expense. Make the entry in the journal.

B. P. 41. — *Credit the Proprietor's Personal account with monthly salary allowance, unless a separate Salary account is kept.*

No. 67 May 31 Pay the following expense bills for the month of May by check: Central Telephone Company, $5.60; City Gas and Electric Company, $8.75. Make two entries. (B. P. 3.)

No. 68 May 31

Adjusting Entries. — An adjusting entry is an entry made for the purpose of modifying an account so that it will show the actual profit or loss during the period ended, or the actual asset or liability at the time of making the adjustment.

No matter when the books are closed, it will always be found that some items of expense or income will be paid beyond the date of closing; while other items of expense incurred will not have been paid, and other items of income earned will be unpaid.

The insurance premiums were paid ahead for one year at the time the policies were taken out. Now the premiums are paid ahead for eleven months, and since the whole amount was charged to an asset account in the first place, the portion used must now be charged to a loss account.

Of the total premiums, $200, $120 was on real estate and $80 on stock, so that real estate expenses should now be charged with one month's insurance at the rate of $120 a year, or $10.

Similarly, selling expenses should be charged with one month's cost of insurance at the rate of $80 a year, or $6.67. The sum of these amounts should be credited to Insurance Prepaid, after which the difference between the two sides of the account will show the amount of premiums still prepaid.

B. P. 42. — Credit INSURANCE PREPAID, *at the end of a business period, with the cost of insurance during that period.*

Make an entry in the journal debiting Real Estate Expenses for $10, Selling Expenses for $6.67, and crediting Insurance Prepaid for $16.67.

On May 5 interest was paid on a note due September 5. Thus, the expense of procuring the money is paid ahead from May 31 until September 5, or for ninety-seven days. The first cost of interest on the note was $102.50. The interest for ninety-seven days is $80.83, and is paid in advance at this date. It is therefore an asset. In order to show the cost of interest for the period just closing, it is necessary to make an adjustment, transferring the amount paid in advance to an asset account.

B. P. 43. — Debit INTEREST PREPAID ON NOTES PAYABLE, *at the end of a business period, with the amount of interest prepaid on our own notes.*

Make a journal entry debiting Interest Prepaid on Notes Payable and crediting Interest on Notes Payable for $80.83, with proper explanation.

Depreciation. — Buildings, Fixtures, Machinery, in fact everything that is capable of being used, change in value with the use and the passage of time. Usually the change is one of decreasing value. A piece of equipment used day after day constantly declines in market value, and ultimately wears out or has to be discarded because some other type of equipment is so much superior in time and labor saving.

This wearing process may not involve the expenditure of money until the article is finally discarded, but it is nevertheless going on. It would be unwise, in some cases ruinous, for a business to ignore this factor of the cost of doing business. Hence, at closing time this estimated loss through depreciation should be shown on the books. It may be shown through a depreciation account, or if no depreciation account is kept, then the depreciation is charged through the various expense accounts. In this work depreciation will be charged through the General Expenses account.

The estimated depreciation of Furniture and Fixtures for the month of May is 10% of the cost. Make an entry in the journal, debiting General Expenses, and crediting Furniture and Fixtures for the proper amount.

See note, page 79.

No. 69 May 31 Retain the bank statement until instructed as to its disposal.

No. 70 May 31 SEVENTH REPORT — Prepare the report called for, have it verified, and hand in all outgoing papers — cash, checks, sales, notes payable — remaining in your files.

CLOSING THE BOOKS

Now that the transactions for May have all been recorded in their proper books, the next work is the closing of the books of original entry, posting from those books to the ledger, taking a trial balance, preparing financial statements, closing the ledger, and preparing statements of accounts. This work is all of great importance and should be performed with attention to all details and with a clear understanding of each step. Pay careful attention to the instructions.

1 Balance the cash book. Be sure to show the footings of the special columns properly and to have all rulings as they should be. Study the model, pages 81–82.

2 Foot the Purchases Journal.

3 Foot the Sales Journal.

4 Have the totals verified.

5 Open accounts in the ledger, beginning on the first right hand blank page in Blank No. 4, *allowing one-half page for all accounts, except as otherwise noted.*

Assets:

Cash
Notes Receivable
Accounts with customers (alphabetically arranged)
After opening all accounts with May customers, leave three pages blank for additional accounts with customers in June.
Real Estate
Furniture and Fixtures
Insurance Prepaid
Interest Prepaid on Notes Payable

Liabilities:

Notes Payable
Accounts with creditors (alphabetically arranged)
Leave three blank pages after the accounts with May creditors for accounts with additional creditors in June.

Proprietary Accounts:

Henry F. Adams, Capital
Henry F. Adams, Personal
Leave a blank page after the two accounts with Mr Adams.

Trading Accounts:

Sales
Purchases
Freight and Cartage (one-fourth page)
Inventory (Asset) (one-fourth page)

Operating Expenses:

Selling Expenses
General Expenses (one page)
Real Estate Expenses

Other Income Accounts:

Interest on Notes Receivable
Discounts on Purchases

Other Expense Accounts:

Interest on Notes Payable
Discounts on Sales

Leave three blank pages.

Summary Account:

Profit and Loss

6 Index all ledger accounts, using the pages provided for that purpose. The index pages are in double column. Allow one-third column for each letter of the alphabet. Group I and J together. In indexing proper names, use the Directory style, last name first, as Bowen, Thomas W.

7 The student is now ready to post. Debit the personal accounts named for all transactions recorded in the sales book; credit Sales for the total. From the receipts side of the cash book, credit the personal accounts named for all transactions recorded in the Accounts Receivable column (make sure that every credit to a customer is in the Accounts Receivable column, whether there was a discount or not). Credit all other accounts with the amounts in the net receipts column. Debit Discounts on Sales with the total shown by that column. Debit Cash for total receipts.

Credit the personal accounts named for all transactions recorded in the purchases journal; debit Purchases with the total. From the payments side of the cash book, debit the personal accounts named for all transactions recorded in the Accounts Payable column. (Every debit to a personal account should be recorded in the first column, whether there was a discount or not.) Debit all other accounts with the amounts shown in the net payments column. Credit Discounts on Purchases with the total of that column. Credit Cash with the total payments. Post the journal in the usual manner.

In the ledger folio column indicate the book from which the posting is made, as instructed in April.

8 Check the posting.

9 Rule all personal accounts which balance.

10 Take a trial balance.

11 When the trial balance has been approved, copy it on the first blank page following the proof trial balance for April.

12 Prepare a Profit and Loss statement. There are six new accounts on the May statement — Selling Expenses, Interest on Notes Payable, Discounts on Sales, Interest on Notes Receivable, Discounts on Purchases, and Real Estate Expenses. See illustration for the arrangement of the Profit and Loss statement for May.

The merchandise inventory is $3372.55.

JOHN C. COLLINS

PROFIT AND LOSS STATEMENT, MAY 1–31, 19—

Sales		$12365.72
Deduct Cost of Goods Sold:		
Purchases	$15680.75	
Freight and Cartage	116.87	
	$15797.62	
Less — Inventory, May 31	6280.25	9517.37
Gross Profit on Sales		$2848.35
Deduct Operating Expenses:		
General Expenses	567.95	
Selling Expenses	348.72	
Real Estate Expenses	197.65	1114.32
Net Profit on Operations		$1734.03
Add Other Income:		
Discounts on Purchases	$167.89	
Interest on Notes Receivable	23.56	191.45
		$1925.48
Deduct Other Expenses:		
Discounts on Sales	$83.49	
Interest on Notes Payable	67.94	151.43
Net Profit		$1774.05

13 Prepare a Balance Sheet. New accounts are Real Estate, Furniture and Fixtures, Insurance Prepaid, Interest Prepaid on Notes Payable. See that the statements agree. The difference between the assets and liabilities must equal the investment (plus the personal account credit) increased by the net profit.

14 When the Profit and Loss statement and the Balance Sheet have been approved, copy them in Blank No. 3, following the trial balance.

15 Make closing entries on loose journal paper.

(*a*) Set up the Inventory account. (B. P. 20 and 21.)

(*b*) Close Freight and Cartage into Purchases. (B. P. 22 and 23.)

(*c*) Close Purchases into Sales. (B. P. 24 and 25.)

(*d*) Close Sales into Profit and Loss. (B. P. 26 and 27.)

Follow the Profit and Loss statement in detail. Closing entries must satisfy three conditions: The entries themselves must have equal debits and credits; they must balance the accounts intended to be closed; and they must conform to the results shown by the Profit and Loss statement.

(*e*) Close the Interest on Notes Receivable and Discounts on Purchases accounts into Profit and Loss.

B. P. 44. — *Debit* INTEREST ON NOTES RECEIVABLE *at closing with the profit shown by that account.* (*Credit Profit and Loss.*)

B. P. 45. — *Debit* DISCOUNTS ON PURCHASES *at closing with the profit shown by that account.* (*Credit Profit and Loss.*)

The entry may be compound in form, as:

Interest on Notes Receivable
Discounts on Purchases
    To Profit and Loss

(*f*) Close all the losses into Profit and Loss, using a compound entry. (B. P. 29.)

B. P. 46. — Credit SELLING EXPENSES *at closing with the loss shown by that account. (Debit Profit and Loss.)*

B. P. 47. — Credit REAL ESTATE EXPENSES *at closing with the loss shown by that account. (Debit Profit and Loss.)*

B. P. 48. — Credit INTEREST ON NOTES PAYABLE *at closing with the loss shown by that account. (Debit Profit and Loss.)*

B. P. 49. — Credit DISCOUNTS ON SALES *at closing with the loss shown by that account. (Debit Profit and Loss.)*

(*g*) Close the balance of the Profit and Loss account into H. F. Adams' personal account.

If the entries have been properly made, the balance of the Profit and Loss account will be the net profit.

(*h*) Make an entry to transfer the balance of Mr. Adams' personal account into his Capital account.

15 When the closing entries have been approved, copy them into the journal and post them. Foot and rule the trading accounts, and all other accounts which show a profit or a loss, including the Profit and Loss account. Rule H. F. Adams' Personal account; balance the Capital account and the Cash account.

16 Take a proof trial balance and copy it following the balance sheet.

17 Prepare for Mr. Adams a list of his customers, together with the amount each owes the business; also prepare a list of creditors and the amount owed each by the business.

18 Submit your books for examination.

19 You may now look up voucher No. 69, which is your last incoming voucher for May. This is the statement rendered to Mr. Adams by his bank for the month.

The column headed "Deposits" shows the date and the amount of each deposit made during the month, together with the proceeds of the note discounted on May 5. The column headed "Checks Paid" shows the amounts and dates of payment of all checks drawn by Mr. Adams during the month and paid by the bank. The column headed "Balance" shows the balance in bank at the time of rendering the statement.

Receive from the instructor the canceled checks drawn against Mr. Adams' account during the month, with the exception of four checks which, according to the statement, are outstanding; that is, they have not been deposited or cashed by the payees. The checks returned to you should agree with those listed in the Checks Paid column.

Verify the canceled checks with your stubs. Prepare a statement reconciling the bank balance with the balance shown by your check book. (See page 65 for form of statement required.) If your statement agrees with the balance as shown by your check book, copy it on the reverse side of your check book stub.

Attach the canceled checks to the bank statement, and file in the Voucher File.

REVIEW QUESTIONS

1 Explain two different methods of recording purchases.

2 Why are purchases of furniture and fixtures, office supplies, etc., not recorded in the purchases journal?

3 When there is a choice of payment, which date should be recorded in the "When Due" column of the purchases journal?

4 Explain how the purchases journal is a form of journal.

5 How is the detailed record of the purchases kept?

6 How does the bookkeeper keep a record of the items sold to a customer?

7 How are postings made from the purchases journal?

8 What is the advantage of special columns in books of original entry?

9 What is a contra entry?

10 What is shown by the balance of the Insurance Prepaid account?

11 Explain two methods of recording discounts.

12 What is a bill of lading?

13 What is the difference between a straight bill of lading and an order bill of lading?

14 What is the purpose of adjusting entries?

15 What should the balance of a real estate account show?

16 To what account should repairs to real estate be charged?

Exercise 12

On loose ledger paper, open the following accounts: General Expenses, Selling Expenses, Real Estate Expenses, Interest on Notes Receivable, Interest on Notes Payable, Discounts on Sales, Discounts on Purchases.

Enter the following transactions under the proper accounts.

June 1 Paid for office supplies, $27.50.

2 Paid advertising bill, $36.80.

3 Paid water rent, $10.75.

4 John Smith paid his interest-bearing note, interest, $7.50.

5 Paid our interest-bearing note favor of Thomas W. Bowen, interest, $6.75.

6 Borrowed money from the bank on our 60-day note; interest paid in advance, $105.

8 Paid clerks' wages, $175; stenographer, $25; bookkeeper, $30; electric light bill, $8.25; traveling expenses, $12.60.

9 Paid invoice of James Anderson, less discount of $14.75. Received payment for bill of goods sold to A. W. McKey, less discount of $13.50.

10 Paid for office supplies, $16.85; telephone bill, $4.80.

11 Received payment of A. A. Knowles & Co.'s note with interest, $7.35.

12 Paid for repairs on building, $28.90; repairs to typewriter, $3.80.

13 Received payment for F. C. Tenney's interest-bearing note, interest, $13.80.

15 Paid clerks' wages, $175; stenographer, $25; bookkeeper, $30; invoice of City Mills Co., less discount of $19.50.

16 Discounted our note at bank, interest paid in advance, $50.

17 Paid for stationery, $17.50; invoice of West, Stone & Co., less discount, $24.30.

18 Received payment of Rice & Pond's note with interest, $4.95; payment of bill sold to D. W. Perry & Co., less discount of $14.40.

19 Paid for telegram, 50¢; for cleaning office windows, $3.50.
20 E. Mason & Co. paid their interest-bearing note, interest, $7.80.
22 Paid clerks' wages, $175; stenographer, $25; bookkeeper, $30.
23 Paid for repairs to roof, $26.30.
24 Paid interest-bearing note favor Shields Bros., interest, $9.20.
25 Paid invoice of City Mills Co., less discount of $23.70.
26 Paid advertising bill, $17.50.
27 Received payment of Thomas W. Bowen & Co.'s interest-bearing note, interest, $7.15.
29 Paid clerks' wages, $175; stenographer, $25; bookkeeper, $30.
30 Paid traveling expenses, $37.80; delivery expenses, $76.90.

Foot the accounts and present for approval.

Exercise 13

It is desired to close the books July 31, 19— at which time the following adjustments are to be made.

(*a*) July 1, the business discounted a note at bank, face of note $6000, time to run 93 days. The interest was paid in advance. Required an entry to adjust Interest on Notes Payable account so that it will show the cost of interest for the current period. (B. P. 43.)

(*b*) The business holds an interest-bearing note made by A. W. McKey, for $800, dated May 1. No adjustment of interest has been made on this note. Make an entry to show the amount of interest earned at the time of closing.

Debit Interest Accrued on Notes Receivable; credit Interest on Notes Receivable. The interest has not been paid and will not be paid until the maturity of the note, but interest has accrued from the date of the note until July 31.

(*c*) A bill for sales slips amounting to $23.50 (Selling Expenses) was charged by mistake to General Expenses. Make an entry to correct the error.

(*d*) A payment of $500 which should have been credited to A. W. McKey was credited to D. W. Perry & Co. Make an entry to adjust the error.

(*e*) July 1, an insurance policy was taken out on the stock of goods, premium $180 for one year. The cost of the premium was charged to Insurance Prepaid. Make an entry which will show the value of insurance prepaid at the end of July, and the cost of insurance for the month. (B. P. 40 and 42.)

(*f*) A policy on real estate was also taken out July 1, premium $240. This premium was charged at the time to Real Estate Expenses. Make an entry to show the amount of insurance prepaid for this policy, and which will adjust the real estate expenses account to show cost of insurance for the month.

(*g*) A bill to Fletcher Bros. was entered in the sales journal as $675.90; it should have been $765.90. Make an entry to correct the error.

(*h*) An entry was made in the cash book, crediting Rice & Pond for $575. The entry should have credited Notes Receivable for $560 and Interest on Notes Receivable for $15. Make an entry to adjust.

Submit your entries for approval.

Exercise 14

The following trial balance was taken from the books of Elmer Davis, December 31, 19—.

Cash	$ 5162.85	
Notes Receivable	1789.65	
Accounts Receivable	5368.90	
Real Estate	9000.	
Furniture and Fixtures	315.	
Insurance Prepaid	275.	
Notes Payable		$ 7000.
Accounts Payable		4685.17
Elmer Davis, Capital		10000.
Elmer Davis, Personal	87.50	
Purchases	8248.75	
Freight and Cartage	116.80	
General Expenses	416.10	
Selling Expenses	575.	
Real Estate Expenses	163.	
Discounts on Sales	86.90	
Sales		9664.38
Interest on Notes Receivable		43.50
Discounts on Purchases		212.40
	$31605.45	$31605.45

Inventory of goods on hand, $1000.47.

Prepare a Profit and Loss statement, and Balance Sheet. Make closing entries. Close Profit and Loss into the Proprietor's Personal account. Make an entry to close the balance of his personal account into his capital account.

EXERCISES PREPARATORY TO THE JUNE WORK

INTEREST AND DISCOUNT

Exercise 15

Take a double sheet of three-column journal paper and indicate columns for a cash book as follows: On the receipts side, Notes Receivable, Discount on Notes Receivable, and Net Cash. On the payments side, Notes Payable, Discount on Notes Payable, and Net Payments.

Remember that only discounts can be entered in the Discounts column. Interest must be entered in the Net column.

A commercial bank will buy the Notes Receivable of its depositors. This is an accommodation to the depositor, because it enables him to turn the notes into cash before maturity. It is a profit to the bank, because it collects from the depositor in advance interest on the note for the time which it has yet to run. This profit to the bank is, of course, a loss to the depositor, but if the latter needs the money he is willing to pay for the use of it.

The bank will also lend money on the depositor's Notes Payable, properly secured. Whether the bank buys the notes held by the depositor, or the notes made by the depositor, the discount calculation is the same — on the face of the note for the time it has yet to run. Of course, if the note is interest-bearing, the interest for the full term of the note must be first added to the face, because the interest continues to accumulate during the life of the note, regardless of any other condition.

Occasionally a depositor may borrow the face of an interest-bearing note, paying the interest when the note matures, but the banks prefer, and generally obtain, interest in advance.

Counting Time. — Commercial paper usually runs for a short term, rarely more than 120 days. There are several methods of counting time. Suppose it is desired to count the time from March 28 to September 9. If the exact number of days is counted, there are 165, but if compound subtraction is used (counting 30 days to the month) there are only 161, while if the time is counted by months and days there are 162 days. (From March 28 to August 28, 5 full months, 150 days. From August 28 to September 9, 12 days; total 162.)

Banks invariably count the exact number of days in calculating discounts. If the time on an interest-bearing note is expressed in months, it is usually counted on the basis of 30 days to the month.

In the following problems the rate is 6%.

May 1, 19— You are having D. H. Farley's note for $1200, of this date, at 4 months discounted at bank. Calculate the discount for the exact number of days from May 1 to September 1, the date of maturity.

Debit Discount on Notes Receivable for the discount. Enter the face of the note in Notes Receivable column, the discount in Discount column, and the proceeds in Net Receipts column.

What are the debits and what is the credit?

May 2 You discount L. E. Pearson's note for $4500, dated to-day, payable at the City Bank in 90 days. Calculate the discount and make the entry.

This transaction is similar to the preceding one.

May 3 You have on hand H. G. Smith's note for $800, dated Jan. 16, at 4 months. Have it discounted at the City Bank. Calculate the discount and make the entry.

Remember that the discount is calculated for the time which the note has yet to run. The note matures May 16, therefore the term of discount is 13 days. Debit Discount on Notes Receivable.

May 4 You have outstanding a note in favor of Reed & Barton, dated April 25, at 3 months, for $950. Pay it to-day, less discount for the unexpired time.

By paying the note before maturity, you save the interest for the time the note has yet to run. Calculate the discount from May 4 to July 25. Credit Discount on Notes Payable. Enter the note at its face value.

May 5 You have on hand J. B. Freeman's note for $728.50, dated April 5, at 4 months. He pays it in cash, less discount for the unexpired time. Calculate the discount and make the entry.

By paying the note before maturity, Freeman saves the interest from May 5 to August 5. Debit Discount on Notes Receivable for the discount.

May 5 You have on hand J. C. Sanderson's note for $2400, dated April 5, due 30 days from that date with interest. He pays the note and interest. Calculate the interest and make the entry.

Your interest income is $12 for 30 days. Credit Interest on Notes Receivable, entering the interest separately in the Net Receipts column.

May 5 Paid cash for your 6-month note, due to-day, favor Clark & Harris, for $1000, with interest. Calculate the interest and make the entry.

This transaction is the reverse of the preceding one. Interest costs you $30 for 6 months. (Use 180 days.) Debit interest on Notes Payable, entering the interest separately in the Net Payments column. Enter the note at its face value.

May 7 You have on hand C. B. Fenner's note for $1100, dated April 25, at 90 days. Have it discounted at bank. Calculate the discount and make the entry.

This is similar to transaction of May 1. Calculate the discount for the time the note has to run.

May 7 You have outstanding a note in favor of Charles Langdon for $1200, dated April 20, at 4 months. You pay the note, less discount for the unexpired time. Calculate the discount and make the entry.

This transaction is the reverse of the preceding one. You save interest on $1200 from May 7 to the date of maturity. Credit Discount on Notes Payable.

May 8 D. W. Evans & Co. owe you a note of $7000, dated April 30, at 4 months. They pay the note to-day, less discount. Calculate the discount and make the entry.

May 9 You have on hand Sam F. Curtis' note for $1200, dated April 20, at 60 days with interest. Have it discounted at bank. Calculate the interest for 60 days; calculate the discount, and make the entry.

This is an interest-bearing note. At maturity it will be worth its face plus the interest for 60 days. When discounting a note, always find the maturity value as a first step. Of course, if it is a non-interest-bearing note, the maturity value will be the face value, but if it is an interest-bearing note, find the interest for the full term of the note. The maturity value of this note is $1200 plus the interest for 60 days. Upon this total, calculate the discount for the time the note has yet to run, from May 9 to June 19.

The interest is greater than the discount; and, while both may be recorded, it is only necessary to make one entry, crediting Interest on Notes Receivable for the difference. Credit Notes Receivable for the face of the note; credit Interest on Notes Receivable for the excess of interest over discount.

May 10 You have outstanding a note for $1500 in favor of Barnes Bros., dated April 17, at 90 days with interest. You pay the note on the basis of bank discount.

Calculate the interest for 90 days. Add the interest to the face of the note. Calculate the discount upon the amount from May 10 to the maturity of the note.

Debit Notes Payable with the face of the note; debit Interest on Notes Payable for the excess of interest over discount.

May 12 You have on hand note of the Allen Chemical Co. for $2650, dated April 12, at 4 months with interest. Have it discounted at the City Bank, and make the cash book entries.

This transaction is similar to that of May 9.

May 12 O. M. Curtis gave you a note March 13, at 60 days, for $890.75, with interest. The note is due to-day and Curtis pays you face and interest. Calculate the interest and make the entry. Credit Interest on Notes Receivable. Do not use the special column.

May 14 Your note for $746 in favor of G. W. Longley, dated Feb. 14, at 3 months with interest, is due to-day. Pay the note and interest. Calculate the interest and make the entry. Debit Interest on Notes Payable. Do not enter in special Discount column.

May 14 A. S. Hewitt's note of March 14, at 2 months, for $722.87 with interest, is due to-day. They pay the note and interest. Calculate the interest and make the entry.

May 15 You have on hand note of E. C. Ayer, dated to-day, for $825, at 3 months. Have it discounted at City Bank. Calculate the discount and make the entry.

DRAFTS — BILLS OF EXCHANGE

A *bill of exchange* is an unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand or at a fixed or determinable future time a sum certain in money to order or bearer. (Uniform Negotiable Instruments Law.)

A bill of exchange is commonly called a *draft.* It will be seen from the above definition that there are three parties, technically, to a draft. The *drawer* is the one who orders; the *drawee* is the one upon whom it is drawn; the *payee* is the one to whom it is payable. The drawer of a draft usually draws it in favor of himself, or in favor of his collecting agent, in which case there are actually but two persons involved in the transaction.

Two-Party Sight Draft. — With regard to time of payment, drafts may be "at sight," "after sight," or "after date."

A bill of exchange may be termed a sight draft if it is payable on presentation. (See illustration.)

TWO-PARTY SIGHT DRAFT

$ 210.55 St. Louis, Mo., June 1, 19—

At sight Pay to the

Order of Ourselves

Two hundred ten 55/100 Dollars

Value received and charge the same to account of

To E. M. Leach

No. — Louisville, Ky.

Rice Bros. & Co.

In the above draft Rice Bros. & Co. are the drawers and the payees, having drawn the draft in favor of themselves. The demand is made upon E. M. Leach, who is therefore the drawee. What are the relations between these two parties? Leach is indebted to Rice Bros., and the latter take this means of collecting the account. It may be an old account which Rice Bros. & Co. have been unable to collect by ordinary methods, or it may be the outcome of a recent sale to Leach in which the terms agreed upon were "sight draft."

Rice Bros. & Co., having drawn the draft, will in the usual course leave it at their bank either for collection and credit or for credit and collection. In the former case they receive no credit at the time of leaving the draft at bank. The bank presents the draft, either through its own collecting department, or through an agent bank, to Leach. Although the draft is payable at sight, Leach has twenty-four hours in which to examine his account with the drawer and decide whether he will honor (pay) the draft or not. If he pays the draft, the collecting bank credits the account of the drawer for the amount. If he refuses to pay, the bank returns the draft dishonored to the drawer.

If the draft is deposited for credit and collection, it goes through the same routine. If the draft is honored, the transaction is ended, but if dishonored the bank returns it to the drawer and charges his account with the amount formerly credited to it on account of the draft.

The time of the drawer's entry will depend upon which of the former methods is used. The form will be the same in either case. In the following discussion, it will be assumed that the draft is left for collection and credit.

Rice Bros. & Co., having drawn the draft and left it at the bank for collection and credit, will make only a memorandum entry pending the disposal of the draft. When it is reported paid, the situation is exactly the same as if Leach had sent Rice Bros. & Co. his check on account; that is, when the sight draft is paid it is a cash transaction, and the drawer will debit Cash and credit the drawee.

Of course, the drawer may present the draft in person instead of passing it through the bank, but that would not affect the entry.

Two-Party Time Draft. — The two-party time draft originates under the same circumstances and is used for the same purpose as the sight draft, but the insertion of the words "30 days," or other time, makes a marked difference in the character of the draft. Leach & Co. drew the draft because Lacey & Co. owed them. (See illustration.)

TWO-PARTY TIME DRAFT

$275.00 Brooklyn, N. Y., June 1, 19

At thirty days' sight Pay to

the order of Ourselves

Two hundred seventy-five no/100 Dollars

Value received and charge the same to account of

To E. B. Lacy & Co.

No. Chicago Ill.

D. B. Leach & Co.

As the above draft stands, it contains no agreement that Lacey & Co. will pay at the end of 30 days, or at any other time. There is no contract on the face of the draft.

Leach & Co., having drawn the draft, present it to Lacey & Co. for their acceptance. That is, having made the demand on Lacey & Co., the drawers seek to have Lacey & Co. signify their agreement to the demand. This may be done by mail or in person. It may be on the draft itself, or it may be a separate writing, but it must be in writing.

Assuming that the drawer presents the draft to the drawee and the latter is willing to be bound by the terms, the drawee writes across the face of the draft what is technically called an acceptance, using the word "accepted," adding the date, the place of payment, and his signature. (It is not necessary that the place of payment be specified, but it is desirable.)

When the draft is returned to the drawer accepted, it has all the force of a promissory note. The drawer has definitely promised to pay the bill according to its terms. The order has been converted into a promise and will be referred to as an *acceptance.*

The draft is shown below with the acceptance written upon it.

$ 275.00 Brooklyn, N.Y., June 1, 19—

At thirty days' sight Pay to

the order of Ourselves

Two hundred seventy five 00/100 Dollars

Value received and charge the same to account of

To E.B. Lacy & Co.
Chicago, Ill.

No.—

D.B. Leach & Co.

The drawer, having received a written promise to pay, debits Notes Receivable and credits the drawee. The drawee, having given his promise to pay, debits the drawer and credits. Notes Payable.

If the draft is written "days after date," the date of the acceptance is not necessary, because in that case the acceptance takes effect from the date of the draft.

THE TRADE ACCEPTANCE

A trade acceptance is an acknowledgment of a debt by the buyer in favor of the seller for merchandise that the seller had placed in the hands of the buyer with which to pay this debt. The buyer agrees to pay at a certain date, at his own bank, to the seller, the amount of this certain indebtedness by writing across the face thereof, "Accepted," the date, and the name of his own bank and his signature thereon. (See illustration.)

TRADE ACCEPTANCE.

No. 1 May 8 19— $ 765 80/100

Thirty days After date pay to the order of OURSELVES

Seven hundred sixty five 80/100 Dollars.

The obligation of the acceptor hereof arises out of the purchase of goods from the drawer as per INVOICES of this date

To F.C. Tenney

The acceptor's signature must exactly correspond with this name

Due June 7, 19—

ACCEPTED May 8 19— Date

Payable at Commercial Bank Springfield Mass. Acceptor's bank, street address or word "office"

F.C. Tenney Acceptor's signature

Henry F. Adams

ered, but its use differs somewhat. The trade acceptance, as will be seen from the definition, is issued at the time the sale is made, with the understanding that the proceeds from the resale of the goods will be used to pay the acceptance at maturity. It is essentially an instrument of credit, whereas the older form is frequently an instrument of collection. Trade acceptances have found favor with the banks, and offer certain distinct advantages to the seller.

1 The seller has satisfactory evidence that the goods are acceptable, since the buyer in accepting the draft agrees that the goods have been received and that payment will be made as stated in the acceptance.

2 The seller has a written promise to pay upon which he can realize cash by discounting same at his bank; whereas he finds it very difficult and expensive to borrow money on his open book accounts.

3 If the seller does not need to discount the paper, he knows the exact date upon which it will be paid and can therefore govern his business accordingly in anticipation of certain receipts.

4 In case of failure to pay, the instrument proves itself in a court of law.

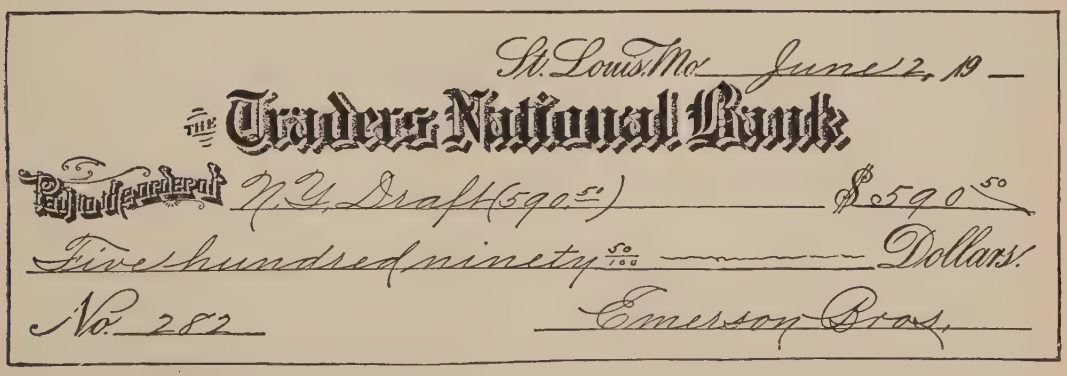
Some of these advantages to the seller are not so favorable to the buyer. It makes it difficult for him to secure adjustments, and he cannot postpone payment easily as is usually the case in open book accounts. But, since the buyer is also a seller, he comes to see that the trade acceptance is a most useful instrument in the transaction of business. Then, too, the signing of a trade acceptance increases the financial standing of the acceptor, because it shows prompt paying methods.

If the volume of business in acceptances is sufficiently large, accounts may be kept under the names of Acceptances Receivable and Acceptances Payable.

Checks, with which the student is already familiar, are bills of exchange always drawn on a bank. When a bank draws a check on another bank it is referred to as a bank draft. Bankers are, of course, large users of checks. They may use a Cashier's check, which is really a check on the bank itself, or they may draw checks on a correspondent bank, in which case the checks are called bank drafts.

The depositor frequently exchanges his own check for a bank draft, because the bank draft will be received without question where the individual's check might be refused.

Suppose Emerson Bros. wish to order goods from the Eastman Kodak Co. to whom they are not known. Emerson Bros. may send their personal check with the order. If they do, the order is likely to be delayed until the check goes through for collection. To avoid this possibility, Emerson Bros. decide to use a bank draft, and make out their check as shown in the illustration, specifying to the Cashier, or other official of the bank, that they wish the draft made payable to themselves.


St. Louis Mo. June 2, 19—

THE Traders National Bank

Pay to the order of N.Y. Draft (590 50) $590 50

Five hundred ninety 50/100 Dollars.

No. 282 Emerson Bros.

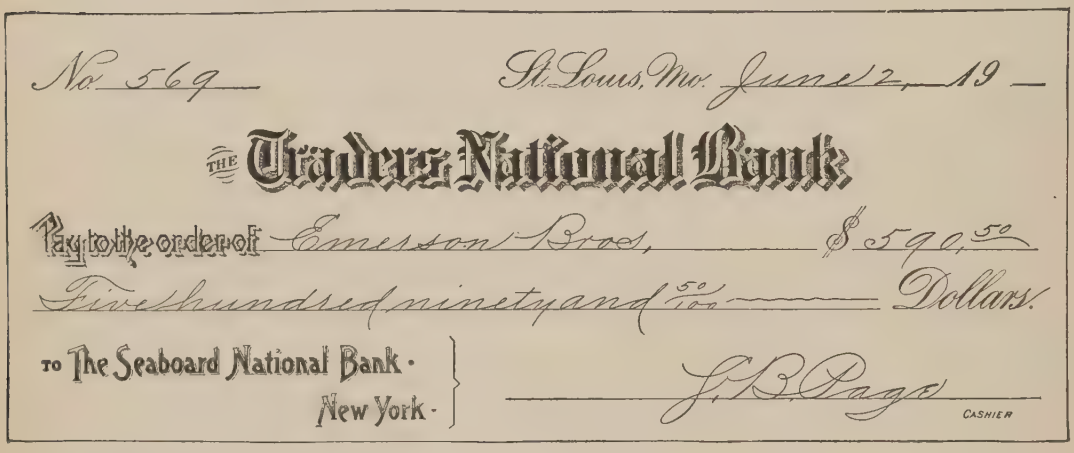
If the draft is made payable to the Eastman Kodak Co., there will be nothing on it to show that it came from Emerson Bros.

The bank now draws its check on a correspondent bank, usually in New York, because New York is the financial center of the country. This draft is made payable, not to the Eastman Kodak Co., but to Emerson Bros. (See illustration.)

Emerson Bros. now indorse the draft, making it payable to the Eastman Kodak Co. The draft is enclosed with the order, and, since a New York draft is current everywhere, there is no danger of delay pending the collection of the draft.

Collection and Exchange. — The bank reimburses itself for the cost of forwarding and collecting items by charging its customers a small sum. This charge is known as Collection, or Exchange, or Collection and Exchange. Members of the Federal Reserve System, however, seldom charge their depositors for collecting out-of-town checks.

Form of Bank Draft


No. 569
St. Louis, Mo. June 12, 19—
THE Traders National Bank
Pay to the order of Emerson Bros, $590.50
Five hundred ninety and 50/100 Dollars
To The Seaboard National Bank
New York
CASHIER

Certified Checks. — If the depositor wishes to obtain the advantages of a New York draft and still have his canceled check from the party to whom he remits, he may accomplish it by having his check certified by the bank.

A certified check is one upon the face of which the bank has written "Certified," the date, and the signature of the proper officer. Such a check is at once charged to the drawer's account, since the bank becomes the principal debtor and is bound to pay the check upon presentation. There is no charge for certifying checks, and it is illegal to certify a check unless the depositor has funds on deposit to cover the amount.

Exercise 16 — Drafts

1 You drew a sight draft on Emmons, Hyde & Co. for the amount they owe you, $600.

Write the draft, dating it June 1. The draft may be written in favor of "ourselves" or in favor of the Bank which is the collecting agent. If the draft is written in favor of ourselves, it must be indorsed. The following form of indorsement should be used:

Pay Commercial Bank
for Collection
(Your name)

This is a restrictive indorsement, destroying the negotiability of the paper upon which it is used. It does not pass title, but shows that the bank is the agent of the indorser. This is the preferable form.

If the draft is written in favor of the bank, it does not require indorsement by the drawer, and there is nothing on the draft itself to show that the bank is not the owner of the paper.

The bank notifies you that the draft has been paid. Make the journal entry.

The transaction amounts to this: Emmons, Hyde & Co. have paid you cash on account.

2 George C. Chase owes you $275, which is overdue. You decide to draw at sight for the amount, leaving the draft at your bank for collection.

Write the draft, dating it June 15, naming yourself as payee and indorsing it to Commercial Bank for collection.

The bank notifies you that payment has been received from Chase, and credited to your account, June 18, less a collection charge of 25¢. Make the journal entry.

Charge the collection fee to Collection. Make a compound entry, debiting Cash for the amount of the draft, less the collection charge; debit Collection, and credit Chase for the face of the draft.

3 You sold O. H. Waters on May 10 an invoice of goods, amounting to $1200, recording the sale in the sales journal. On the same day you drew a 60-day draft in favor of yourself for the amount of the invoice, forwarding the draft for acceptance through the Commercial Trust Company. The bank secures Waters' acceptance and notifies you to that effect.

Write the draft.

Write the acceptance of O. H. Waters.

Make the journal entry.

This is equivalent to receiving a note from Waters on account. The draft does not require indorsement, since the bank is not to collect it, but only to secure the acceptance.

4 Wm. Parsons & Co. have drawn on you at sight as of June 6, 19—, through the Harvard National Bank for $650. You pay the draft June 7.

Write the draft and make the entry of June 7.

5 F. W. Preston draws a draft on you in favor of himself, at 30 days' sight, for $200.

Write the draft and accept it as of June 6.

Make the entry upon acceptance.

This is equivalent to giving Preston your note on account.

6 You receive from P. Kimble & Co. their acceptance at 10 days for the amount they owe you, $400. Date of draft, June 10; date of acceptance, June 12.

Write the draft and show Kimble & Co.'s acceptance.

Make the journal entry.

7 On July 15 you receive a bank draft from C. Farnham & Co. for $510, in full payment of account.

Make the journal entry.

8 On May 10 you sold an invoice of goods to Ward Bros. to the amount of $300, making an entry in the sales journal for same. A trade acceptance of the same date, running for 60 days, was inclosed with the invoice. The acceptance has been returned signed by Ward Bros.

Make the journal entry.

9 On May 1 invoice is received from J. C. Dennis & Co. for goods amounting to $915. Terms: 1/30. A 30-day draft for the net amount of the bill is also received. The draft is accepted by you and returned to J. C. Dennis & Co. Assuming that the invoice was entered in the purchases journal, make the journal entry for the acceptance. (B. P. 32.)

The draft is drawn for $915, less 1%, or $905.85.

10 Desiring to make remittance of $800 to S. A. Dodge & Co., you purchase from your local bank a New York draft for that amount, giving a check drawn on the same bank in payment. Make the entry.

You have paid S. A. Dodge & Co. cash on account. The fact that you exchanged your own check for the bank's check makes no difference in the entry.

11 You purchased an invoice of merchandise, amounting to $975.80, from A. H. Woodbury. They inclosed a 10-day draft for your acceptance, dated May 5, for the amount of the invoice, less 2%. Assuming that the entry was made in the purchases journal for the face of the invoice, accept the draft, making it payable at your bank, and make the journal entry. (B. P. 7, 32, and 14.)

12 On May 15 the bank notifies you that the acceptance in favor of A. H. Woodbury was presented for payment and that the amount of the draft was charged to your account.

Make the journal entry.

When you accepted the draft, payable at your bank, it was equivalent to an order on your bank to pay the draft at maturity and charge to your account. On the day the draft became due it was equivalent to a check, and the bank paid it as such.

13 On May 6 you sold Adams & Hackland an invoice amounting to $765.50, which amount was entered in the sales book. You enclosed with the invoice for their acceptance a 30-day draft, dated May 6, for the amount of the invoice, less 3%. On May 8 the draft was returned accepted. Make the journal entry. (B. P. 13, 33, and 10.)

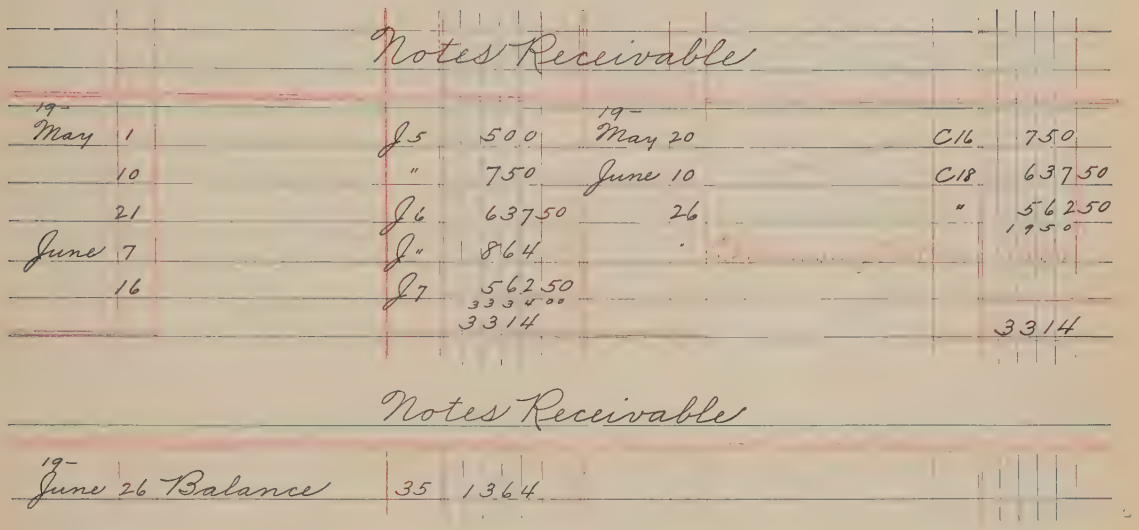
14 On May 12 you discounted the above acceptance at bank, receiving credit for the proceeds.

Base your calculations on the face of the acceptance. Calculate the discount for the unexpired time.

Make the journal entry. (B. P. 1, 51, and 17.)

TRANSFERRING ACCOUNTS

When an account is transferred to a new page, it should be closed, and either the footings or the balance carried forward. If the balance is to be transferred, the difference between the two sides is written on the smaller side, the account is ruled and footed, and the balance transferred to the new account. (See illustration.)



Notes Receivable

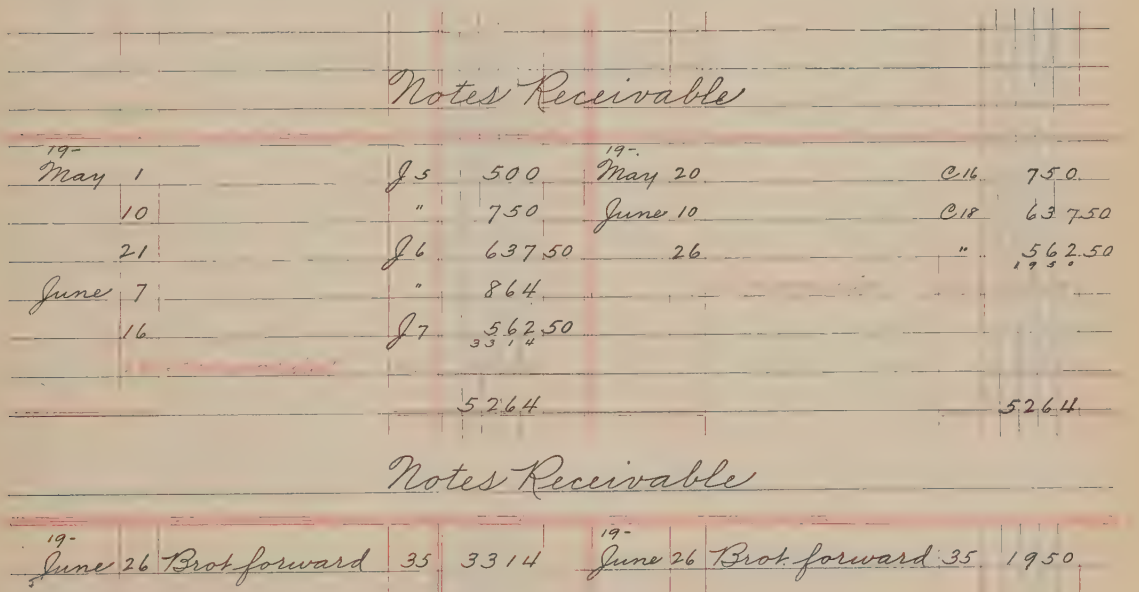
19-				19-			
May	1	J5	500	May	20	C16	750
	10	"	750	June	10	C18	637 50
	21	J6	637 50		26	"	562 50
June	7	J"	864				1950
	16	J7	562 50				
			3334 00				
			3314				3314

Notes Receivable

19-				
June	26	Balance	35	1364

If it is desired to transfer the footings of any account, each footing is written respectively on the opposite side of the account; whereupon, the account balances, is ruled, and the two footings are carried forward with their original debit and credit determination, to the new account.

An account may be forwarded also by carrying the footings of each side to the corresponding side of the new account. (See illustration.)



Notes Receivable

19-				19-			
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	21	J6	637 50		26	"	562 50
June	7	"	864				1950
	16	J7	562 50				
			3314				
			5264				5264

Notes Receivable

19-					19-			
June	26	Brot forward	35	3314	June	26	Brot forward	35 1950

ACCOUNTS INTRODUCED IN JUNE

Good Will. — Good Will is the value placed on the reputation of an established business, and its ability to earn profits.

H. F. Adams has a going business which is worth more than the property and stock of goods which he owns. He has built up a reputation among his customers, and they will continue to do business with him. This intangible asset is known as Good Will. So long as H. F. Adams remained the sole proprietor of the business there was no occasion to take account of Good Will on the books. In June, however, he admits a partner, who is willing to pay for the prestige already established by Mr. Adams. Good Will is usually estimated on the basis of a number of years' average profits. In this instance it is agreed that Good Will shall be valued at the difference between $12,000, the amount student pays for a half interest in the business, and the net worth of H. F. Adams at closing, May 31.

The account will show a debit balance and is treated as an asset. It is frequently charged off to Profit and Loss over a period of years.

Fire Loss. — When a loss occurs by fire it may be handled through a Fire Loss account. This account will show on one side the losses suffered by fire, and on the other side, the returns from insurance and from the sale of damaged goods, in fact, anything that goes toward offsetting the loss.

The balance of the account shows the net fire loss, and is closed into Profit and Loss.

Discount on Notes Payable. — In this account will be recorded the profit realized by the business on account of prepaying its notes payable.

Entries will appear on the credit side, except at closing or when it is necessary to make an adjustment.

The balance shows a profit and is closed into the Profit and Loss account.

Discount on Notes Receivable. — In this account is recorded the loss suffered by the business on account of discounting its notes receivable before maturity.

The entries will appear on the debit side, except at closing or when it is necessary to make an adjustment.

The balance shows a loss and is closed into the Profit and Loss account.

HENRY F. ADAMS & COMPANY — JUNE

PARTNERSHIP

Partnership is the relation which exists between two or more persons who unite their capital, labor or skill, or some, or all of them, in conducting a business for profit. In the absence of specific agreement to the contrary, the rights and duties of the partners and their sharing in profits or losses are equal.

Mr. Adams has succeeded in building up a good business in wholesale tea, coffee, and spices, and as he sees the opportunity for still further expansion, he is planning to add a full line of standard groceries. To do so, it is necessary that he have additional capital, and he has proposed to admit you as an equal partner.

After giving the matter due consideration and after going over with Mr. Adams the details of such an arrangement, it is agreed that you are to invest $12,000, thereby acquiring a one-half interest in the profits and the assets of the business. This means that the good will of the business which Mr. Adams established is estimated to be equal to the difference between the amount of his net worth at the end of May and your investment. This is later brought on the books by a journal entry, debiting Good Will and crediting Mr. Adams' Capital account for the difference.

Salary Allowances. — As office manager of the new company you will receive a monthly salary of $125, while Mr. Adams' salary remains at $200 per month.

The firm name is to be Henry F. Adams & Company.

The admission of one or more partners does not in any way affect the principles already learned in keeping the books of a sole proprietor. The accounts of the additional partner, or partners, are kept in the same manner as the account of the sole proprietor. The accounts of the different partners must be kept separate.

Articles of Copartnership. — It is customary and advisable in forming a partnership for a written contract to be drawn up, setting forth all the terms of the agreement, and signed by the partners. This agreement is legally known as Articles of Copartnership.

The following illustrates the form of such an agreement:

Form of Articles of Copartnership

Articles of Copartnership, made the first day of June, one thousand nine hundred and . . . , between John B. Lamson, of Manchester, N. H., of the first part, and Frank W. Garland, of Boston, Mass., of the second part, witnesseth as follows:

The parties hereunto, having mutual confidence in each other, do this day form with each other a copartnership under the firm name of John B. Lamson & Co., for the purpose of conducting a wholesale business in tea, coffee, spices, and general groceries, at 241 Chestnut St., Manchester, N. H., under the following terms and conditions, to wit:

First. *That the said John B. Lamson of the first part shall contribute the entire resources of his late business located at 241 Chestnut St., Manchester, N. H., as shown by his financial statement prepared May 31, 19—, less the liabilities, as shown by that statement, which liabilities are to be paid by the firm of John B. Lamson & Co. The total net investment of John B. Lamson, as shown by these statements, is $7245.*

Second. *The said Frank W. Garland of the second part shall contribute cash to the amount of $7245.*

Third. *The capital so formed is to be used and enjoyed in common between them for the prosecution and management of said business, to their mutual benefit and advantage.*

Fourth. *Both parties shall devote their entire time to the business, and shall share gains and assets equally, and bear losses equally. John B. Lamson is entitled to draw a salary of $225 per month, and Frank W. Garland is entitled to draw a salary of $200 per month from the funds of the business.*

Fifth. *The said John B. Lamson hereby guarantees that all notes and personal accounts due John B. Lamson, and invested by him in the firm of John B. Lamson & Co., shall be worth their face value, less any regular trade discounts to which they may be entitled.*

In Witness Whereof, *the parties hereto have hereunto set their hands and seals, in duplicate, the day and year first above written.*

JOHN B. LAMSON. [L. S.]
FRANK W. GARLAND. [L. S.]

The partnership is formed as of June 1. In your capacity as bookkeeper and office manager, you are to record all transactions for the month of June, after which the books will again be closed.

A partnership agreement should be full and explicit, and many other provisions than those stated above may be inserted, as the facts require.

Books of Account. — The same books of original entry as were used in May will be continued during June, and two new books will be added. These books are the Notes Receivable and Notes Payable books.

The Notes Receivable book contains a record of notes and trade acceptances received by the business; the Notes Payable book contains a record of all notes and trade acceptances issued. These books may be used as books of original entry, if desired, or as auxiliary books, supplementing the regular books of account.

If the Notes Payable book and Notes Receivable book are kept as books of original entry, of course there is no entry necessary in the journal. In this set they are used as auxiliary (supplemental) books, and the note book record is in addition to the regular journal entry for notes received or issued.

Business Practice. — An important change made in the June work is that the business practice is discontinued, no business papers being received or issued; instead, full information regarding each transaction will be obtained from the textbook. This change is made because it is felt that by this time the student has obtained sufficient practice for the present in handling business papers, drawing checks, making out bills, etc., and that he is now able to concentrate his attention more particularly upon the technical phases of bookkeeping and accounting.

Posting. — The student can easily understand how the bookkeeper whose accounts are not posted will frequently be placed at a disadvantage. If a customer asks for a statement of his account, it would be necessary to go over all the work for the month, or period elapsed since closing, to find the debit and credit items affecting such account. The probability of overlooking one or more items is always present, especially if such work is done hurriedly. In a large business, with many daily entries, the books must be posted frequently and regularly. Regular posting in that case means daily posting. The student should remember that at the time of closing the daily routine of the business goes on and must be recorded, which is an added reason for keeping all work up to date.

Only those entries are posted which must be posted individually, such as personal accounts and all other accounts for which there is no special book and no special column. The total of sales, purchases, cash received and cash paid, discounts on sales, discounts on purchases, etc., are not posted until the end of the month.

New Accounts. — Preparatory to the June posting, the following accounts should be opened: An account in the ledger with Good Will, on the page preceding Real Estate; accounts with new customers, immediately following the May customers; accounts with new creditors, following the May creditors; an account with Discount on Notes Receivable, line 30 on the page with General Expenses; an account with Discount on Notes Payable on the page with Discounts on Purchases; an account with Fire Loss, on the page preceding Profit and Loss; a Capital and a Personal account with the student, on the page following the same accounts with Mr. Adams.

TRANSACTIONS

June 1

In beginning the June cash book, bring forward the balance as of May 31, entering it in the Net Receipts column.

Make an entry for your investment of $12,000, crediting your Capital account.

As your investment of $12,000 entitles you to only a half interest in the business, it is necessary to raise the capital account of Mr. Adams to an equal amount. Consult your ledger to ascertain Mr. Adams' net worth May 31. The difference between $12,000 and Mr. Adams' net worth, May 31, is the agreed value of the Good Will. Make an entry in the journal, with appropriate explanation, debiting Good Will and crediting H. F. Adams, Capital.

Pay bill of Hatheway Bros., printers, for office supplies, $7.87.

Buy merchandise of City Mills Company, Brooklyn, amounting to $742. Terms: 3/10, n/30.

June 3

Pay invoice of L. Hennes & Co. of May 24, less discount.

Buy merchandise of Reynolds, Davis & Co., $1063.38. Terms: 2/10, n/4 mo.

June 4

The firm has outstanding a note for $1505 held by L. Hennes & Co. which is not due until July 1. L. Hennes & Co. are willing to accept a check in prepayment of the note and will allow us discount for the unexpired time. Calculate the discount for the time between June 4 and July 1.

The business is entitled to the use of this money 27 days longer. If it has sufficient funds, however, a saving can be effected equivalent to the interest on $1505 for 27 days. Make the cash book entry.

Charge Notes Payable with the amount of the check in the net payments column. Make a journal entry for the discount.

B. P. 50. — *Credit DISCOUNT ON NOTES PAYABLE with all discounts earned by prepayment of notes payable.*

Debit Notes Payable and credit Discount on Notes Payable with the discount. The cash book entry and the journal entry combined debit Notes Payable with the face of the note.

June 5

On June 2 you drew a sight draft on Rice & Pond and left it at the bank for collection. Rice & Pond have paid you (through your collecting agent, the bank) $265 in cash. Make the proper entry.

Sell A. W. McKey, 282 Elm St., City, an invoice of goods amounting to $422.30. Terms: 1%, 30-day acceptance.

Make the entry in the sales journal. Assuming that the draft has been drawn on A. W. McKey and sent to him for his acceptance, no entry will be made for the latter until notice of his acceptance has been received.

Sell F. C. Tenney, City, an invoice of goods amounting to $278.72. Terms: 3%, 10-day acceptance.

Dispose of as in the preceding transaction.

Make the following payments:

Westen Tea & Spice Company, $200, on account.
Charles K. Fox for invoice of May 28, less 3%.
West, Stone & Co. for invoice of May 29, less 3%.

June 6

The draft drawn upon A. W. McKey for the amount of invoice of the 5th, $422.30, less 1%, was accepted as of that date.

The draft was drawn for $418.08, the amount of the invoice, less 1%. The accepted draft is equivalent to a promissory note. Debit Notes Receivable for the amount of the acceptance, $418.08; debit Discounts on Sales for the 1%, $4.22; and credit A. W. McKey for the amount of the bill, $422.30. This is a journal entry. Record the acceptance in the Notes Receivable book.

The draft drawn on F. C. Tenney on the 5th for the amount of your invoice, $278.72, less discount, has been accepted.

The transaction is similar to the preceding one. Credit Tenney for the amount of the invoice. Debit Notes Receivable and Discounts on Sales. Record the acceptance in the Notes Receivable book.

Receive invoice from West, Stone & Co., dated June 3, for $1146. Terms: 3%, 10-day acceptance. The draft drawn at 10 days for the amount of the invoice, less 3%, accompanied the invoice and has been accepted.

Enter in purchases journal for the full amount of the bill. In accepting the draft you have given your written promise to pay. Make a journal entry debiting West, Stone & Co. for the amount of the invoice and crediting Discounts on Purchases and Notes Payable.

Record the acceptance in the Notes Payable book.

June 7

Fill order from A. A. Knowles & Co. The invoice amounts to $353.68. Terms: On account. A check for $600 to apply on account accompanies the order.

Your bank discounts at 6% the two acceptances received on the 6th from A. W. McKey and F. C. Tenney, and places the net proceeds of each to your credit.

Do not associate these transactions with the transactions with A. W. McKey and F. C. Tenney. They are entirely distinct and have no relation whatever to those persons. You have an acceptance, dated June 5, to run 30 days, for $418.08. It is now June 7, so the acceptance has 28 days to run. Calculate the discount for that time.

You have another acceptance, also dated June 5, to run 10 days, for $270.36. Calculate the discount for the unexpired time.

Make the cash book entries. Debit Cash and credit Notes Receivable in the net receipts column for the proceeds of each acceptance. Make a journal entry for each discount.

B. P. 51. — *Debit* DISCOUNT ON NOTES RECEIVABLE *with the amount charged by a bank for discounting notes receivable for the business.*

Debit Discount on Notes Receivable and credit Notes Receivable for each discount. The combined entries credit Notes Receivable with the face value.

Mark the acceptances "Discounted at Bank" in the Notes Receivable book.

JUNE 8

Pay invoice of City Mills Company of June 1, taking advantage of the discount of 3%.

Receive invoice of goods from City Mills Company for $1266. Terms: 3/10, n/60.

JUNE 10

Pay invoice of Reynolds, Davis & Co. of June 3, less the discount.

Fill order received from E. Mason & Co. amounting to $572.07. Terms: 2/10, n/30.

JUNE 11

Fill order from Fletcher Bros. for goods amounting to $601. Terms: 3% cash.

While the terms are cash, payment has not been received. Make no entry in the cash book.

A. A. Knowles & Co. return merchandise billed to them on the 7th and ask to be allowed credit at the billed price, $43.60.

This is a return of goods previously sold, hence the amount should be deducted from sales.

B. P. 52. — *Debit Sales with the sale price of goods returned by customers (unless Returned Sales account is kept).*

B. P. 53. — *Credit a Person with allowances made by the business for returned sales, damaged goods, adjusted claims, etc.*

Make a journal entry debiting Sales and crediting A. A. Knowles & Co.

JUNE 12

Received check from Fletcher Bros. in payment of invoice of June 11, less 3%.

Pay bill of the City Carting Company for freight and cartage to date, $86.20. (B. P. 11.)

Fill order from F. H. Randall & Co. for goods amounting to $597.28. Terms: On account. Check of $500 received with order to apply on account.

JUNE 13

Receive invoice of Reynolds, Davis & Co. for $1027. Terms: 2/10, n/4 mos.

The acceptance in favor of West, Stone & Co., dated June 3, is due to-day. It was made payable at the bank and has been charged to your account as per notice received from the bank.

This transaction illustrates a common practice. If you make a note payable at your bank, on the day the note matures, it is equivalent to an order on the bank to pay the sum named, and the holder has only to present it at the bank for payment as he would present a check. The accounts affected are the same as though you had written your check in payment of the note. Make the cash book entry. Complete the record in the Notes Payable book.

JUNE 14

Fill order of Rice & Pond, for goods amounting to $854.15. Terms: On account.

Receive note at 4 months, dated June 12, from Rice & Pond to apply on account, bearing interest at 6%. Face of note, $1000. Make the journal entry, and record in the Notes Receivable book.

Fill order of Thomas Varick & Co., Georgetown, for goods amounting to $563.06. Terms: 1%, 30-day acceptance. Make no entry for the draft until notified of its acceptance.

JUNE 15

Receive from Smith, Perkins & Co. invoice amounting to $841.80. Terms: 3/10, note at 30 days, with interest. In consideration of your giving the firm an interest-bearing note, a discount of 3% is allowed. The note is issued for the net amount of the invoice. Make the entry in the purchases journal for the full amount of the invoice. The note will be for $841.80, less 3%. Make the journal entry. Three accounts are affected: Smith, Perkins & Co., Discounts on Purchases, and Notes Payable. Record in Notes Payable book.

Receive acceptance from Thomas Varick & Co., covering your invoice of June 14, less 1%. The entry is similar to those for the first two transactions on June 6. Record in Notes Receivable book.

Sell to Thomas Bowen & Co., 114 Central St., Dover, Ohio, an invoice of goods amounting to $362.50. Terms: 2/10, n/30.

Pay roll to date as follows:

Office wages, $75; store wages, $150.

JUNE 17

Fill order of D. W. Perry & Co., Madison, Ohio, for merchandise amounting to $52.50. Terms: 2/10, n/30.

Fill order of Thomas W. Bowen & Co. for merchandise amounting to $575. Terms: 2/10, n/30. Freight amounting to $5.60, prepaid.

Freight may be prepaid by the seller as a term of the sale, in which case it is a selling expense; or it may be prepaid by the seller for the convenience of the buyer but charged to the buyer's account, in which case the buyer re-pays the seller. In this case it is a term of the sale.

B. P. 54. *— Debit SELLING EXPENSES with freight prepaid on Sales, unless a separate Freight-Out account is kept.*

Receive an invoice from George C. Buell & Co., 19 Chambers St., New York, for goods amounting to $1210. Terms: 1/30, n/60. The invoice is dated June 15.

Receive check from E. Mason & Co. in payment of your invoice of June 10, less discount.

JUNE 18

Send Shields Bros. a check in settlement of their account.

Pay invoice of the City Mills Co. of June 8, less discount.

JUNE 19

Fill order from D. W. Perry & Co. for merchandise amounting to $614.46. Terms: 2/10, n/30.

Goods showing a cost of $32.60 included in the purchases from George C. Buell & Co. on June 17 were returned for credit, and a credit memorandum for that amount is received from them.

This transaction reduces your purchases, as well as your debt to George C. Buell & Co.

B. P. 55. *— Debit a person with allowances made to the business for returned purchases, damaged goods, adjusted claims, etc.*

B. P. 56. *— Credit PURCHASES with goods returned by the business to the seller (unless a Returned Purchases account is kept).*

If the volume of returned purchases is large, or the transactions frequent, an account is opened with Returned Purchases.

Make the entry in the journal, debiting George C. Buell & Co.

Fill order from F. H. Randall & Co. for goods amounting to $629.50. Terms: 2/10, n/30.

Receive check from F. H. Randall & Co. for $600 to apply on account, with the request that we allow them our usual discount on as much of the bill as this check will pay.

This transaction is similar to No. 55 for May. Divide $600 by 98% to find the amount to credit to F. H. Randall's account.

JUNE 20

Receive an invoice of goods from Shields Bros. amounting to $686.25. Terms: 1/30, n/60.

JUNE 21

Pay bill of City Carting Company, $76.27, for Freight and Cartage bill to date.

Receive invoice of merchandise from Westen Tea & Spice Co. amounting to $1990.60. Terms: 30-day acceptance for $800, remainder on account, 4 months.

Make entry in purchases journal only.

JUNE 22

Accept Westen Tea & Spice Co.'s draft for $800, to apply on account of invoice of June 21.

Make the entry in the journal for the acceptance (Notes Payable). Record in Notes Payable book.

Receive invoice of merchandise from West, Stone & Co. amounting to $1130. Terms: 2/10.

Pay Reynolds, Davis & Co.'s invoice of June 13, less discount.

Receive invoice of merchandise from Smith, Perkins & Co. for $3049.36. Terms: cash, $1000; 30-day note, $1000, balance on account.

Enter in purchases journal for the amount of the bill, in the cash book for the check, in the journal for the note. The balance will be shown when these items are posted to the ledger. Record the note in the Notes Payable book.

JUNE 24

Receive check from Thomas W. Bowen & Co. in payment of your invoice of June 15, less discount.

Fill order from Fletcher Bros. for goods amounting to $838.81. Being pressed for cash just now, they give us their note, at 30 days, with interest at 6%, with the understanding that we allow them our usual discount of 2%. The note has been received.

Theoretically, an interest-bearing note is worth its face value in cash; practically, it is not worth quite its face value, because the bank discount will be a little greater than the interest. If Fletcher Bros. paid cash they would be entitled to the usual discount. Anxious to secure the discount, they offer the equivalent of cash in value — an interest-bearing note. Make the entry in the sales journal for the amount of the bill, $838.81. Make the entry in the journal for the note. Record in Notes Receivable book.

Three accounts are affected: Notes Receivable, Discounts on Sales, and Fletcher Bros. Fletcher Bros. must be credited with the same amount for which they are debited in the sales journal.

Fill order from Thomas Varick & Co., Georgetown, for goods amounting to $510.04. Terms: 2/10, n/30.

JUNE 25

Fill order from D. W. Perry & Co. for goods amounting to $434.35. Terms: 2/10, n/30.

Receive check for $500 from A. W. McKey, to apply on account.

Sell bill of goods to Thomas W. Bowen & Co., amounting to $2170. Usual terms.

JUNE 26

On the evening of June 25 the property at 246 Main Street was badly damaged by fire. The contents of the safe, including cash, valuable papers, and books of account are found to be intact. The furniture and fixtures are a total loss.

The stock of goods was destroyed or damaged by fire, smoke and water. In order to ascertain the loss suffered on the stock, an inventory of goods which must have been in stock at the time is prepared from the original invoices purchased and duplicate invoices sold. This shows that the stock on hand at that time, reckoned at invoice cost, amounted to $8920.38. This inventory is accepted by the insurance company as a basis for adjustment of the loss. The insurance company grants permission to sell the damaged stock to the best advantage.

B. P. 57. — Debit FIRE LOSS with the cost of property damaged or destroyed by fire.

B. P. 58. — Credit PURCHASES with the cost of goods damaged or destroyed by fire.

Make the journal entry, with appropriate explanation.

Fletcher Bros., after an examination of the stock of damaged goods, make an offer of $1500 for the same, which offer is accepted. This sale should be entered in the journal, as it does not represent a sale under normal conditions and at regular selling prices.

B. P. 59. — Credit FIRE LOSS with the amount realized from the sale of damaged goods, or other property, or received from insurance in settlement of fire losses.

Debit Fletcher Bros.

JUNE 27

Receive check from A. W. McKey in payment of note of May 28 due to-day with interest.

Credit Notes Receivable for the face of the note; credit Interest on Notes Receivable with the interest.

Receive check from Fletcher Bros. for $1500 in payment of the special sale of June 26.

Receive check from Thomas W. Bowen & Co. in payment of your invoice of June 17, less discount.

Receive check from D. W. Perry & Co. in payment of invoice of June 17, less discount.

JUNE 30

Receive check from the Equitable Insurance Company for $8000 in full settlement of claims for loss by the fire. Of the amount received, $5000 is for insurance on the building and $3000 for that on the stock. (B. P. 59.)

Receive check from D. W. Perry & Co. in payment of invoice of June 19, less discount.

Make an entry in the journal crediting the personal accounts of Mr. Adams and yourself with your monthly salary allowances. Your own salary is charged entirely to General Expenses, but as it is estimated that Mr. Adams spends about one-half of his time on the road selling goods, half of his salary is charged to Selling Expenses, the other half to General Expenses.

Pay roll to date as follows: Office wages, $75; store wages, $150.

Mr. Adams submits a bill for $87.50, traveling expenses for the month of June, which he has paid from his own funds, and which he asks to have credited to his personal account. (B. P. 40.)

B. P. 60. — Credit the Proprietor's Personal account with any expenses of the business paid from his private funds.

Pay freight and cartage bills to date, $214.85.

The following expense bills for the month are paid: Central Telephone Company, $6, City Gas & Electric Company, $7.70; Adams & Brown, office supplies, $3.65.

Adjusting Entries. — At the end of May the interest paid in advance on your note for $5000 amounted to $80.83. Since then the business has had the use of the money 30 days, which is worth, at 6%, $25. Therefore, the amount of interest prepaid is $25 less than it was on the 31st of May. Make an entry to adjust.

B. P. 61. — *Credit* INTEREST PREPAID ON NOTES PAYABLE, *at the end of a business period, with the decrease of prepaid interest during the period.*

Debit Interest on Notes Payable.

If the prepaid interest were greater at the end of the month than at the beginning, the entry necessary to adjust would be just opposite to the above.

At the end of May the Insurance Prepaid amounted to $183.33. When the settlement was effected with the insurance company, the policies became void, so that there is no Insurance Prepaid, and an entry must be made to adjust this account.

Determine what part of $183.33 applied to insurance on real estate, and what part to insurance on stock. Then make a journal entry debiting real estate expenses (B. P. 38) and selling expenses (B. P. 40) with their proper share, and crediting Insurance Prepaid with $183.33. This entry, when posted, will balance the Insurance Prepaid account.

The furniture and fixtures represent a total loss and should be closed into Fire Loss.

B. P. 62. — *Credit* FURNITURE AND FIXTURES, *at cost price, with equipment sold, destroyed, or otherwise disposed of.*

If the depreciation has been kept in the Furniture and Fixtures account, then the credit must be for the book value, rather than for the cost.

Debit Fire Loss and credit Furniture and Fixtures for $207.90.

The cost of the real estate, land and building, was $12032. The land has an estimated value of $6000. The difference is the loss due to the fire.

B. P. 63. — *Credit* REAL ESTATE, *at cost price, with real estate sold destroyed, or otherwise disposed of.*

CLOSING THE BOOKS

The books of original entry should now be closed. If the posting has been kept up to date, the only postings which remain are the footings of the purchases journal, sales journal, certain items of the cash book, and the adjusting entries. In determining the cash receipts for the month, the balance at the beginning of the month must be deducted, since that amount is already in the ledger. (See illustration Model Cash Book, page 81.)

Check the posting carefully.

Take a trial balance. When the trial balance has been approved, copy it, following the post trial balance for May.

Prepare a statement showing detail of the fire loss, following the model given.

Cost of goods destroyed by fire		$	
Less:			
Insurance received on goods	$		
Sale of damaged goods			
Net loss on merchandise			$
Furniture and fixtures, total loss			
Real estate cost		$	
Less:			
Estimated value of land	$		
Insurance received			
Net loss on real estate			
Total fire loss			$

On the Profit and Loss statement the item of Fire Loss will appear as a total, and the Fire Loss statement is necessary to provide sufficient detail.

Prepare a Profit and Loss statement. The model given below may be used as a guide.

Model Form of Profit and Loss Statement for June.

H. F. ADAMS & CO.

PROFIT AND LOSS STATEMENT, MAY 31 – JUNE 30, 19—

Gross sales to June 25			$	
Less:				
Returned sales				
Net sales to June 25				$
Deduct cost of goods sold.				
Inventory June 1			$	
Gross purchases		$		
Less:				
Returned purchases	$			
Cost of goods destroyed by fire				
Freight and Cartage			$	
Gross profit on sales				$
Deduct operating expenses:				
General expenses				
Selling expenses				
Real estate expenses				
Net profit on operations				$
Add other income:				
Interest on notes receivable			$	
Discount on notes payable				
Discounts on purchases				
Total profit				$
Deduct other expenses:				
Interest on notes payable			$	
Discount on notes receivable				
Discounts on sales				
Net profit exclusive of fire loss				$
Deduct fire loss				
Net loss for month				$
DISTRIBUTION				
H. F. Adams, one-half			$	
Student, one-half				
			$	$

When the Fire Loss statement and the Profit and Loss statement have been approved, copy them in Blank No. 3, following the Trial Balance.

Prepare a Balance Sheet. There will be one additional asset, Good Will. There is no merchandise inventory.

The closing of the Balance Sheet will be different from former closings. The business has suffered a loss which is to be borne equally by the two partners. Instead of adding net profit, net loss must be subtracted. The following model may be used as a guide in closing the Balance Sheet.

Net Worth, H. F. Adams & Co.:			$.....
H. F. Adams			
Net Worth, June 1	$.....		
Add:			
Personal Account, Credit	.....		
	$.....		
Deduct:			
One-half Net Loss	.....		
Net Worth, June 30		.....	
Student:			
Net Worth, June 1	$.....		
Add:			
Personal Account, Credit	.....		
	.....		
Deduct			
One-half Net Loss	.....		
Net Worth, June 30		$.....	
		$.....	$.....

CLOSING ENTRIES

1 The *inventory* account shows the cost of goods on hand, May 31. It should be added to Purchases to show total cost of goods in stock during the month.

B. P. 64. — *Credit* INVENTORY, *at closing, with the inventory, if any, at the beginning of the period.* (*Debit Purchases.*)

2 Close Freight and Cartage into Purchases.

3 Close Purchases into Sales.

4 Close Sales into Profit and Loss.

5 Close the expense accounts into Profit and Loss.

6 Close Interest on Notes Receivable, Discounts on Purchases, and Discount on Notes Payable into Profit and Loss.

B. P. 65. — *Debit* DISCOUNT ON NOTES PAYABLE, *at closing, with the profit shown by that account.*

7 Close Interest on Notes Payable, Discount on Notes Receivable, and Discount on Sales into Profit and Loss.

B. P. 66. — *Credit* DISCOUNT ON NOTES RECEIVABLE, *at closing, with the loss shown by that account.*

8 Close Fire Loss into Profit and Loss.

B. P. 67. — *Credit* FIRE LOSS, *at closing, with the loss shown by that account.*

9 Close Profit and Loss into the Proprietors' Personal accounts, each one-half.

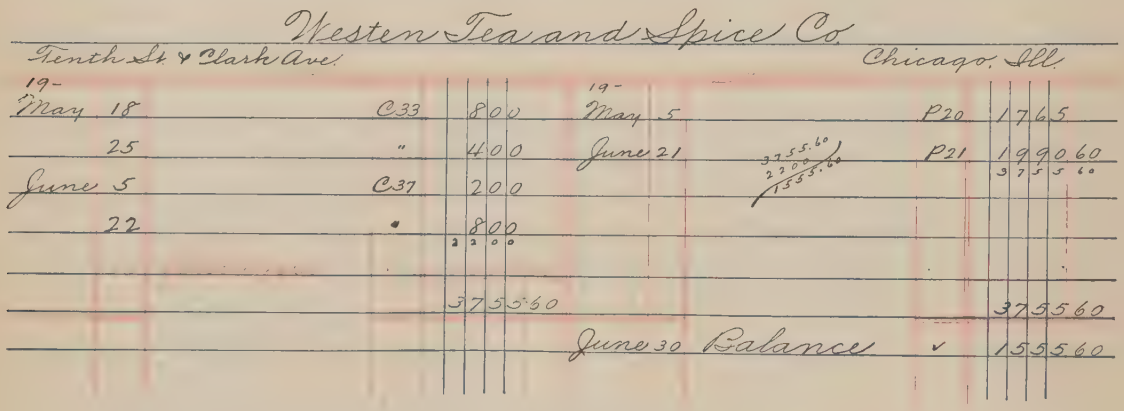
B. P. 68. — Debit the Proprietor's Personal account, at closing, with the net loss; or, if there are two or more proprietors, debit each with his share.

B. P. 69. — Credit Profit and Loss, at closing, with the net loss.

10 Transfer the balances of the Proprietors' Personal accounts to their capital accounts.

11 Post the closing entries and close the ledger. Rule the Proprietors' Personal accounts, and balance the capital accounts and the cash account.

12 Balance Notes Receivable, Notes Payable, and all personal accounts. Any account may be balanced by writing on the smaller side the difference between the two sides. The balancing entry is preferably made in red ink, since that distinguishes such entry from posted entries. Care must be used to bring the balance down below the ruling. If the personal accounts are balanced monthly, it will facilitate the preparing of statements to customers. (See illustration.)



13 Take a proof trial balance.

14 When the proof trial balance has been approved, copy it, following the Balance Sheet for June.

15 Examine your books carefully. When you are satisfied that everything is in proper form, hand in your books for inspection.

REVIEW QUESTIONS

1 What is a draft? What is the distinction between a draft and an acceptance?
2 Name and define the parties to a draft.
3 What is the relation between the drawer of a draft and the drawee?
4 How does a draft differ from a promissory note?
5 How does an acceptance differ from a promissory note?
6 What is a Trade Acceptance?
7 How are sight drafts treated?
8 What does "accepted" mean as the word is used in regard to drafts?
9 What is the advantage of a New York Draft?
10 What is the basis for determining the value of Good Will?
11 What is the function of Fire Loss account?
12 What does the balance of Discounts on Notes Payable show?

13 Explain the distinction between cash discounts and trade discounts.

14 What is meant by the term of discount, either on notes or bills?

15 What entry is made for goods returned to the seller, for goods returned to the buyer?

16 How is freight prepaid treated?

17 When the proceeds of a bill and the rate of discount are given, how is the face of the bill found?

18 How is loss by fire handled on the books?

19 When goods are destroyed by fire, how is the loss on such goods ascertained?

20 What is the advantage of daily posting?

SPECIAL PRINCIPLES OF ACCOUNTING PROCEDURE

Changes are constantly being made in the science and art of Bookkeeping and Accounting. It is not like a dead language, the forms of which do not change. It is certain under such conditions that at any time in the development of a subject there will be some confusion of names. Some authors use a name with one meaning; some use the same name with another meaning, and by the time it is agreed exactly what meaning shall be placed upon those terms, new terms will have arisen.

The profit and loss statement is also called the loss and gain statement, or the business statement. The balance sheet is called the financial statement, or the statement of resources and liabilities, with assets and resources used synonymously. The wider the range of the student's knowledge of the use of terms, the more intelligent will be his advanced study.

The student has been taught rules governing entries in the various accounts so far used. Continued practice makes the application of these rules largely a matter of habit. In all common transactions the debits and credits are determined without effort. Back of these special rules is one inclusive principle which applies to all entries.

The student has observed that cash and notes are debited when they are received. They are tangible things, capable of being handled. Always in transactions involving cash or notes there is something received and something given.

In every transaction involving the purchase of property, whether real or personal, there is something tangible received by one party and given by the other.

In every transaction with persons there is one who receives and another who gives. (In some sense both parties give and receive, but in the case of some transactions this relation is not very clear to the beginner.)

In transactions with incomes there is always the element of profit, and profit always appears on the credit side of the ledger, as when cash is received in payment of interest on notes receivable.

Where services are rendered to another for pay, there is the element of profit, as when one sells goods on commission and receives cash therefor.

In expense transactions there is always the element of loss, and losses appear on the debit side of the ledger. In transactions involving allowances, as discounts on sales and discounts on purchases, there is always the profit or loss element — a profit if the allowance is in favor of the business, a loss if the allowance is made by the business.

Hence, a general rule may be stated which covers all business transactions. With regard to tangible things, debit the thing received; credit the thing given: with regard to persons, both debtors and creditors, debit the receiver; credit the giver: with regard to incomes, profits, services, allowances and expenses, debit for losses, allowances made to others, services hired by the business; credit for income, profits, services rendered to others for hire.

In double entry Bookkeeping an account may be opened with anything. The bookkeeper will open at the beginning of the business such accounts as he knows he will use, and as the business progresses he will open such other accounts as may be necessary to give the desired detail.

Accounts are sometimes classed as personal and impersonal. Where this classification is used, personal accounts are those with debtors, creditors, and the proprietors (except in corporations). Impersonal accounts embrace all other accounts. The impersonal accounts are subdivided into nominal accounts and real accounts. Real accounts include assets and liabilities. Nominal accounts correspond to the profit and loss accounts.

There are different methods of handling various accounts, particularly profit and loss accounts, accrual accounts, and prepayment accounts. While many of the modifications are legitimate, yet care should be taken with regard to the result. If two experienced bookkeepers were given the same set of transactions to write up, doubtless they would use different methods as to detail, but their results, if correct, would be alike. Obviously, there cannot be two different sets of results for the same series of transactions.

For instance, in handling the insurance account, one might debit Selling Expenses for the cost of insurance on stock when the policy was taken out. The other might debit Insurance Prepaid instead. But at closing each bookkeeper must make such adjustments of his accounts as will show the actual expense of insurance for the current period, and the cost of Insurance Prepaid at the end of the period.

The first bookkeeper would make an entry debiting Insurance Prepaid and crediting Selling Expenses for the prepaid insurance. The second bookkeeper would make an entry debiting Selling Expenses and crediting Insurance Prepaid. The balances shown in the two accounts of both bookkeepers would be the same. Suppose the policy cost $100 for a year and the books are closed four months after the policy was taken out. The first bookkeeper's accounts at closing would stand thus:

SELLING EXPENSES

Sept. 1	100.	Dec. 31	66.67

INSURANCE PREPAID

Dec. 31	66.67

The second bookkeeper's accounts at closing would stand thus:

SELLING EXPENSES

Dec. 31	33.33

INSURANCE PREPAID

Sept. 1	100.	Dec. 31	33.33

MIXED ACCOUNTS

The accounts which the student has kept thus far have uniformly shown one result — asset, liability, proprietary interest, profit, or loss. This is as it should be. But accounts are sometimes kept in such a manner that they may show at one time an asset, at another time a liability; at one time a profit, at another time a loss.

For instance, if the old mixed account is kept for merchandise, inventory, purchases, and sales all in one account, it will be closed into profit and loss, showing either a profit or a loss.

After closing, the inventory will be brought down under the ruling, whereupon the account will show an asset.

Discounts on sales and discounts on purchases may be kept under one title, Merchandise Discount. If so, the account so kept will show either a profit or a loss, depending upon whether the sales discounts or the purchase discounts are in excess.

The interest and discount items may be kept under the title Interest and Discount. At closing, this account will show a profit or a loss. If interest has accrued on Notes Receivable or on Notes Payable, the account will show an asset or a liability after closing, but no one can tell which until closing time.

Such mixed accounts are to be condemned as unscientific in method and confusing in results.

INSOLVENCY

The sets worked out by the student have left the proprietor or proprietors with a net worth. If, however, the liabilities exceed the assets, the result is net insolvency.

CLASSIFICATION OF ASSETS AND LIABILITIES

Assets and liabilities are classified with reference to their availability for immediate use in the business.

The first class, known as liquid assets, or current assets, consists of cash, notes receivable, and accounts receivable.

The second class, known as deferred assets, consists of such items as insurance prepaid, interest prepaid, rent prepaid, etc. The use of such assets is deferred or put off until some future time.

The third class, known as fixed assets, or permanent assets, includes such items as real estate used for business purposes, long term notes, bonds, etc.

A fourth class is sometimes specified as trade assets, consisting of goods ready for sale.

Liabilities are also classed in three groups, corresponding to the three groups of assets. Current liabilities are those which are maturing from day to day, accounts payable and notes payable.

Deferred liabilities are those which are accruing from day to day but which are not yet due, such as interest accrued on notes payable and wages accrued.

Permanent or fixed liabilities are those which will not become due for a long time, such as bonds and mortgages payable.

Assets and liabilities should be arranged on the Balance Sheet in the order of their classification.

TAKING CHARGE OF A SET OF BOOKS

If the bookkeeper has charge of the opening of a set of books, he should take care to see that all the assets and liabilities are entered, opening the ledger accounts in the proper sequence of assets, liabilities, capital, and profit and loss accounts. All amounts should be carefully verified. The accuracy of a statement for which the bookkeeper may later be held responsible should never be taken for granted. He should make certain that the cash entered is actually on hand; that the notes and other papers are as they are represented to be before entering them on the books.

All that is necessary to open a set of books after the assets and liabilities are known, is to get the assets on the debit side and the liabilities and investment on the credit side of the

ledger. Unless the investment is composed entirely of cash the opening entry should be made in the journal. To make certain that the ledger is in balance a trial balance should be taken after the opening entry is posted.

If an asset has been omitted from the entry and is discovered later, an entry should be made to bring it on to the books by debiting the asset account and crediting the proprietor's capital account. If a liability has been omitted, the proceeding is, of course, just the reverse.

On taking charge of a set of books which have been kept by another bookkeeper, one must be no less careful. If the change is made at the end of a fiscal period, the incoming bookkeeper should call for and examine the statements and schedules of accounts receivable and accounts payable, notes, etc., verifying them by reference to the ledger and to any other records available. The cash account should be verified. The balance of cash in bank cannot be verified except with the aid of the bank statement from which, with the check book and the record of checks not yet cashed, a reconciliation can be made. The proof trial balance should be examined, and, after footings have been proved, carefully checked against the ledger accounts to make sure that all accounts are entered, that the ledger balances agree with the trial balance figures, and that all accounts on the trial balance are actually in the ledger.

If the change is made during a fiscal period, see that the ledger was in balance at the close of the last fiscal period, that cash proves and that the records are in good condition for continuing the work. It may often be necessary to post the work to date and take a trial balance. Where special books and columns are used, and it is desired to have postings show monthly totals, the balance may be proved without posting totals. If all the individual items are posted and all the books pencil footed, a trial balance may be taken by using the balances in the ledger and adding to the total all the pencil footings which would appear on the debit side and credit side respectively if they were posted.

If a mistake is found, it should be reported to the proprietor or person in charge. If the bookkeeper assumes the correctness of work, unless it is properly vouched for, he also assumes the burden of responsibility for the mistakes he has made no effort to find, or, having found, neglects to report.

CASH SHORT AND OVER

Sometimes it is impossible to prove cash. An item of cash may be received and deposited without having been entered in the cash book, in which case cash will not prove. It is not always possible to locate such an error. Even if a copy of the deposit slip is kept, while it may be seen that the discrepancy in the cash proof is the same as the amount of currency deposits over the entries for cash, it may not be possible to tell from what source the item was received. If only checks are received, or if the error consists in not having entered a check, and a sufficient copy of the deposit slip is kept, it is not difficult to locate such an error.

The same sort of error may happen in cash payments, where currency is used. When the error cannot be found, it is charged or credited to Cash Short and Over, or an account with similar significance. If the error is discovered later, an entry is made to correct the record. If the error is not found before closing, the question of disposing of it arises. If there is a reasonable probability that it may be discovered, the balance may be treated as an asset or a liability, depending upon whether it is a credit balance or a debit balance. If there is no such probability, or if the error is old, it should be treated as a profit or loss.

The accurate handling of cash is greatly facilitated if all funds received are deposited in the bank and all payments are made by check.

PROTESTING COMMERCIAL PAPER

When a check is not paid upon presentation, or a note is not paid if properly presented at maturity, or a draft is not accepted upon presentation, the paper is said to be dishonored. Commercial paper, when dishonored, may be protested. A protest is a formal statement made by a notary public to the effect that a negotiable instrument has been dishonored.

A fee is charged for making the protest. If a check or note for which the drawer has been credited is protested, the maker should be charged both for the check or note and the protest fee.

ERRORS AND CORRECTIONS

Erasures should not be made in books because it invalidates them as documentary evidence. Before an entry has been posted, the wrong amount may be canceled, as already noted, and the correct amount written in. After an entry has been posted, it should never be changed in any way. If an error is discovered, an entry should be made to cancel the wrong entry, and the correct entry made, or an entry should be made to adjust the error, and all entries posted. There is no more prolific source of trial balance errors than tampering with posted entries, to say nothing of the other bad effects. Erasures, blots, finger marks, and lack of neatness generally are unpardonable in the bookkeeper.

THE BOOKKEEPER'S CONFIDENTIAL RELATION

The bookkeeper holds a confidential position. He cannot betray it without betraying his own interests. The private records of the business, known to the bookkeeper, may not be discussed by him with outsiders, or even with other employees of the business if he is to retain the confidence of his employers and his own self-respect.

INVENTORIES IN EXPENSE ACCOUNTS

It is still a practice to some extent to use inventories in expense accounts instead of making adjusting entries. For instance, at closing there may be office supplies on hand amounting to $50 and insurance prepaid amounting to $75. These are assets regardless of the method of keeping the accounts, and they must be shown as assets. The proper method would be to debit Office Supplies on Hand and Insurance Prepaid for the respective amounts; but if they are treated as expense inventories, when the account is closed they are entered on the credit side of the expense account (reducing the loss shown by so much), and after the account is closed the amount, $125, is brought down on the debit side. The result is an asset in a loss account. It is not good bookkeeping.

ACCOUNT BOOKS

Books of Account are divided into two classes: Principal books and Auxiliary, or helping books.

Principal Books. — A principal book is one from which or to which posting is done. In this class are the journal, cash book, sales journal, purchases journal, and ledger.

Auxiliary Books. — An Auxiliary book is one which helps to complete the record by supplying certain details, but in which no debits and credits are recorded, and from which, consequently, no posting is done. In this class are the check book and the note books. Other examples are the stock book, in which is kept a detailed record of the merchandise on hand; and the time book, which records the number of hours' labor done by each employee.

Index Book. — For convenience in referring to accounts in the ledger, it is necessary to have the names of all accounts arranged in alphabetical order in a book especially arranged for that purpose, with the page number of the ledger page on which the account appears written immediately after the name of the account. This index book may be bound in the fore part of the ledger, or it may be a separate book.

Before beginning to post, the bookkeeper may find out from the index book the ledger page number of each account appearing in the cash book, sales journal, purchases journal, and journal, and insert it in the folio column before the name of the account. This enables one in posting to refer directly to the page of the ledger on which the account appears, without loss of time. As each entry is posted, a check mark is placed by the folio in the book posted from.

SYSTEMATIZING THE WORK

Posting. — Systematic posting will do much to minimize the errors which are likely to occur in the process of transferring entries from the books of original entry to the ledger, especially if the bookkeeper observes the sequential relation of the entries being posted to the entries already posted.

Transactions with customers begin as sales, hence the first record of such transactions will appear as a charge in the sales record. If the sales record is posted first, then the bookkeeper has a check on the accuracy of his posting by observing whether or not the credit entries are consistent with the debit entries. For instance, after a sum is posted to the credit side of a customer's account, it should be compared with the debit item which it is supposed to cancel, or partly cancel. If the two amounts are nearly the same, as $315 on the debit side and $308.70 on the credit side, it will usually indicate a mistake such as posting the proceeds of an invoice, paid less discount, instead of the face; or, if the credit is larger than the debit, it may indicate that the amount has been posted to the wrong account, or that the figures have been transposed, since it is unusual for customers' accounts to show a credit balance.

The same check may be observed in posting to creditors' accounts if the entries in the purchases record are posted first; that is, before the debits to those accounts from the journal and the cash book are posted.

If the same item appears twice on the credit side of a customer's account and only once on the debit side, it will usually indicate that an error has been made in crediting a person when notes receivable should have been credited. Similarly, if the same item appears twice on the debit side of a creditor's account, it is likely that an error has been made in debiting a person when notes payable should have been debited.

In the notes receivable account — when notes are posted separately — a credit entry for a note paid in full must always be preceded by a debit entry for the same amount. If there is a slight difference between the corresponding amounts, it may mean that a note has been credited for proceeds rather than for the face, at least an error of some kind to be investigated and corrected. In the notes payable account, a debit entry for a note paid in full must always be preceded by a credit entry for the same amount. A slight difference between the sums will probably mean that a note has been debited for the proceeds instead of the face.

By exercising care and taking advantage of all possible checks on accuracy, much difficulty will be avoided in getting a trial balance.

Arrangement of Ledger Accounts. — System in the arrangement of ledger accounts tends to accuracy. Accounts of the same class should be grouped together — assets, liabilities, trading accounts, profits, and losses. When such arrangement is followed, a careful inspection of the trial balance which does not balance will often reveal the difficulty. If any account shows an unusual condition, if it is unusually large or small, or seems to be on the wrong side, it should be investigated. The observant bookkeeper acquires a sort of sixth sense with regard to his accounts.

The Statements. — Either of the two principal statements, the profit and loss statement, and the balance sheet, may be made first. They must always agree in their findings. Every debit balance which appears on the trial balance is used as a debit either on the profit and loss statement or on the balance sheet, and every credit balance on the trial balance is used as a credit either on the profit and loss statement or on the balance sheet. Every non-ledger inventory is used on one statement as a debit and on the other statement as a credit. When this is done, it is mathematically certain that the statements agree. If they do not, the statements must be checked against the trial balance to see that the above conditions are true for those particular statements. If the statements still do not agree, then there was no trial balance in the first place.

Copying. — Very frequently the bookkeeping student makes rough drafts of trial balances and other statements, and when they are found to be correct, he copies it, makes a mistake in copying, and is unable to make the remaining statements agree. A group of figures should always be checked after copying, and all additions and subtractions verified.

WHOLESALE CARPET BUSINESS

Write up the following transactions, using loose journal and ledger paper. The books to be used are cash book, sales journal, purchases journal, journal, stock book, and ledger. Use three-column journal paper for the cash book, heading the columns Accounts Receivable, Discounts on Sales, and Net Receipts on the receipts side; Accounts Payable, Discounts on Purchases, and Net Payments on the payments side.

The Stock Book. — The only thing new in this exercise is the stock book. The form of stock book, or perpetual inventory, illustrated below, is designed to show the quantity of goods on hand from day to day. As goods are purchased, the number of yards is entered in the Bot. column and added to the number in the On Hand column. The number of yards sold is entered in the Sold column and deducted from the On Hand column. Thus the last number in the On Hand column will always show the quantity of goods in stock. The form below shows part of the stock book for the following transactions.

FORM OF STOCK BOOK

		Axminster			Body Brussels			Ingrain			Lining		
		Bot.	Sold	On Hand	Bot.	Sold	On Hand	Bot.	Sold	On Hand	Bot.	Sold	On Hand
June	2				750		750	1200		1200	2500		2500
	4					150	600					300	2200
	4								200	1000		600	1600
	4					450	150					850	750
	5					150							
	5				892		892				2200		2950
	6	400		400							2000		4950
	7		145	255									
	8					392	500		400	600		1200	3750

An inspection of the form will show that each purchase or sale, whether composed of one or many items, occupies one line. The date of the transaction is given in each case.

A stock record of this kind does not obviate the necessity of taking an inventory. An inventory of goods on hand should be taken periodically and the result compared with the stock book.

The stock record may be kept on a card index system. By this method a card is used for each item of merchandise, the name of the article being written at the top of the card. Underneath this, in special ruled columns, is kept a record of goods bought, sold, and on hand. There is also a column for the date or order number. The cards are filed alphabetically according to the name of the article.

Rule in red ink on foolscap paper a stock book similar to the form shown. Enter in your stock book the quantities bought, sold, and on hand from day to day.

Your teacher will assign you a selling price list from the Cost and Selling Price Lists below The buying prices are shown at the left of the list.

Cost and Selling Price Lists

Cost		1	2	3	4	5	6	7	8	9	10
1.87½	Axminster	2.25	2.27	2.26	2.24	2.25	2.28	2.27	2.25	2.30	2.24
1.05	Body Brussels	1.50	1.48	1.49	1.52	1.50	1.48	1.50	1.53	1.48	1.50
.62½	Ingrain	.87½	.87½	.87½	.87½	.87	.87½	.86	.87½	.88	.87½
.06¼	Lining	.09	.08	.10	.08½	.09½	.09	.10½	.09	.09½	.09
.67½	Linoleum	.75	.76	.74	.77	.75	.73	.75	.74	.73	.76
.33⅓	Matting	.50	.52	.51	.48	.49	.50	.52	.50	.51	.49
1.12½	Moquette	1.62½	1.62½	1.66⅔	1.62½	1.66⅔	1.67½	1.62½	1.66⅔	1.62½	1.67½
.33⅓	Oilcloth	.45	.43	.44	.42	.45	.43	.44	.45	.46	.42
.66⅔	Tapestry Brussels	.87½	.87½	.87½	.87	.87½	.87½	.87½	.87½	.87½	.87½
1.37½	Velvet	1.67½	1.67½	1.66⅔	1.62½	1.67½	1.66⅔	1.62½	1.67½	1.62½	1.67½

TRANSACTIONS

June 1 Commenced the Wholesale Carpet business, at No. 182 Elm Street, investing cash, $5500.

1 Paid $250 for office furniture.

2 Bought of John H. Pray & Co., Boston, 2/10, n/30, 600 yd. moquette, 750 yd. body Brussels, 1200 yd. ingrain, 1200 yd. matting, 2500 yd. lining.

3 Bought of Barton Bros., Philadelphia, 1220 yd. linoleum, 1429 yd. oilcloth, giving your note at 15 days, with interest, in payment.

4 Sold E. B. Alling & Co., for cash, less 3%, 125 yd. moquette, 150 yd. body Brussels, 300 yd. lining. You may number the sales beginning with No. 100. Enter all sales in the sales journal for the full amount. Calculate the discount for the cash book entry.

4 Sold F. H. Walling & Co., 2/10, n/30, 200 yd. ingrain, 400 yd. matting, 600 yd. lining.

4 Sold J. G. Carter & Co., 400 yd. moquette, 450 yd. body Brussels, 850 yd. lining, taking their note at four months, in payment.

Enter in sales journal and journal.

5 Sold E. H. Smith & Co., 75 yd. moquette, 150 yd. body Brussels, 600 yd. linoleum, 429 yd. oilcloth, receiving their 30-day acceptance in payment.

5 Discounted J. G. Carter & Co.'s note of June 4 at the City Bank.

Find the date of maturity of the note. Calculate the discount for the exact number of days from June 5 to October 4. Use 6% for all interest calculations in this set.

Credit Notes Receivable in Net Receipts for the proceeds of the note. Make a journal entry for the discount, debiting Discount on Notes Receivable and crediting Notes Receivable. The two credits to Notes Receivable must equal the face of the note.

5 Bought of John H. Pray & Co., Boston, 2/10, n/30, 950 yd. moquette, 892 yd. body Brussels, 2200 yd. lining.

5 Paid freight and drayage on merchandise, $32.10; rent for month of June, $75; books and stationery, $22.50.

Debit General Expenses for the last two items.

5 Bought of James Smith & Co., New York, 400 yd. Axminster, 525 yd. velvet, 984 yd. tapestry Brussels, 2000 yd. lining, accepting their 10-day draft in payment.

Do not neglect the stock book record.

7 Paid James Smith & Co.'s draft of June 5, at 10 days from date, for $2252.88, less discount for the unexpired time.

Debit Notes Payable in Net Payments with the proceeds of the acceptance. Make a journal entry for the discount, debiting Notes Payable and crediting Discount on Notes Payable The two debits to Notes Payable must equal the face of the acceptance.

7 Sold Reed & Savage, subject to sight draft, less 3%, 145 yd. Axminster, 220 yd. velvet, 484 yd. tapestry Brussels.

8 Drew a sight draft on Reed & Savage for the amount of invoice sold them June 7, less 3%, and had the draft placed to your credit in the City Bank.

This draft is deposited for credit and collection. Inasmuch as Reed & Savage bought the goods subject to sight draft, there is no doubt that they will pay the draft upon presentation. Calculate the discount and make the cash book entry.

8 Sold Knowles & Johnson on account, 2/10, n/30, 300 yd. moquette, 392 yd. body Brussels, 400 yd. ingrain, 1200 yd. lining.

9 Paid the invoice of J. H. Pray & Co., received June 2, $2768.75, less 2%.

10 F. H. Walling & Co. paid your invoice of June 4, less 2%.

11 Discounted E. H. Smith & Co.'s acceptance of June 5, at the City Bank. (See second transaction of June 5.)

12 Sold F. H. Walling & Co. on their note at 4 mo., with interest, 600 yd. ingrain, 475 yd. matting, 1200 yd. lining. Allowed them a discount of 3%. Enter in sales journal for the full amount of the invoice. Calculate the discount on sales and make the journal entry.

14 Bought of John & James Dobson, Philadelphia, 2/10, n/30, 892 yd. body Brussels, 1225 yd. tapestry Brussels.

14 Bought of Barton Bros., Philadelphia, 8/15, n/4 mo., 1500 yd. linoleum, 1400 yd. oilcloth.

15 Knowles & Johnson sent you, to apply on account, T. H. Sullivan's note in their favor, dated May 24, 19—, at 90 days for $742.28, with interest. Allowed Knowles & Johnson credit for the face of the note plus the interest accrued upon it to date.

In previous transactions, notes have been transferred at their discount value. In this case the note is transferred at its actual value — face plus accrued interest. Theoretically the values are the same, actually, they differ slightly. If the note were transferred on the basis of the discount value, the interest would be found for the full term of 90 days, and the discount calculated on the amount for the unexpired time. By this method the interest is found for the expired time, which is 22 days.

Debit Notes Receivable and Interest on Notes Receivable and credit Knowles & Johnson for the sum.

15 Paid John H. Pray & Co. invoice of June 5, less 2%.

16 Discounted the Sullivan note, received of Knowles & Johnson, at the City Bank. (This is an interest-bearing note.)

The note is now regularly discounted. Find the interest for the full 90-day period. Find the discount on the amount (face plus interest) for the unexpired time from June 16 to the date of maturity. The entry may be made for both the interest and the discount, or it may be made for the excess of interest over discount. The latter method is more convenient, since it will save a journal entry for the discount. Credit Notes Receivable for the face of the note; credit Interest on Notes Receivable for the difference between the interest and the discount

16 Sold J. G. Carter & Co., on a/c, 2/10, n/60, 600 yd. linoleum, 480 yd. oilcloth.

17 Drew for private use, $150.

No personal account for the proprietor is to be opened in this set. Charge to the capital account.

17 Paid clerks, $75.

Charge salaries to General Expenses.

18 Sold E. H. Smith & Co., 212 yd. Axminster, 305 yd. velvet, 250 yd. tapestry Brussels, obtaining their 30-day acceptance in payment.

18 Knowles & Johnson paid the balance due on their bill of June 8, less 2% of the entire bill.

Deduct the credit of June 15 from the invoice of June 8 for the amount to be credited to Knowles & Johnson. Take 2% of the invoice for the sales discount. The difference between the two amounts thus found will be the amount of cash received from Knowles & Johnson.

No discount was allowed Knowles & Johnson at the time they were credited with the note. Now that they complete the payment within the discount term, they are entitled to 2% of the entire bill.

18 Paid note (dated June 3) and interest in favor of Barton Bros. due to-day.

Make a separate entry for the interest.

21 Sold E. B. Alling & Co., 2/10, n/30, 420 yd. moquette, 280 yd. body Brussels, 800 yd. lining.

21 Discounted F. H. Walling & Co.'s note of June 12, at bank.

This is an interest-bearing note. The entry is similar to that for the first transaction on June 16.

22 Bought of John H. Pray & Co., Boston, 3/10, n/30, 897 yd. moquette, 1745 yd. ingrain, 2400 yd. lining.

23 Bought of James Smith & Co., New York, subject to sight draft at 10 days, 722 yd. Axminster, 941 yd. velvet.

Make no entry for the sight draft until it is received.

23 Paid John & James Dobson's invoice of June 14, less discount.

24 Sold Reed & Savage 400 yd. moquette, 712 yd. body Brussels, 1200 yd. lining, taking their 10-day acceptance in payment, less 2% discount.

25 Bought of John & James Dobson, 1892 yd. body Brussels, 671 yd. moquette, 3200 yd. matting. Gave in part payment your note at 4 mo. for one-half of the amount of the invoice; the balance on account, 4 mo.

26 Sold Knowles & Johnson, net 4 mo., 2/15, 920 yd. linoleum, 1220 yd. oilcloth, 43 yd. Axminster.

28 Sold F. H. Walling & Co., 2/10, n/30, 698 yd. moquette, 792 yd. body Brussels, 1500 yd. lining.

28 Sold E. B. Alling & Co., 2/10, n/30, 390 yd. moquette, 822 yd. body Brussels, 975 yd. tapestry Brussels.

29 Paid Barton Bros'. invoice of June 14, less 8%.

30 E. B. Alling & Co. desire to take advantage of the 2% discount offered on their purchase of June 21, but being short of money, they send $1000 to apply on account, with the understanding that they are to be allowed the discount on so much of the bill as this amount will pay for.

$1000 represents 98% of the amount for which E. B. Alling & Co. are to be credited.

30 Paid clerks, $75; freight bills to date, $68.92.

30 Depreciation on Furniture and Fixtures is estimated at 10%. Make an entry to adjust, charging the depreciation to General Expenses. In accounting practice reasonable depreciation should be allowed at closing date whether for one month or one year.

Close the cash book, the purchases journal, and the sales journal.

Open ledger accounts, arranging the accounts in proper order, and giving each account one-fourth page.

Post and take a trial balance.

From the stock record, determine the inventory of merchandise on hand, and calculate its value, using cost prices.

Prepare a Profit and Loss statement and a Balance Sheet.

Make journal entries to close, post and rule the ledger accounts, and take a proof trial balance.

Submit the work to the instructor for inspection.

OPENING ENTRIES

Exercise 17

In opening a set of books, first make a complete statement of the assets and liabilities of the business. The assets will consist of Cash on hand and in bank; all forms of property in the possession of the business, such as merchandise, materials, furniture and fixtures, real estate, machinery and tools, etc.; and all debts due the business either on accounts receivable or on notes receivable. There should also be included under the assets any other items of indebtedness due the business, such as accrued interest on notes receivable, prepaid insurance, etc.

The liabilities of a business consist of all it owes. This indebtedness may be either on accounts payable, or on notes payable. There may also be other items of debt owing by the business, such as unpaid rent, accrued interest on notes payable, etc.

The difference between the sum of the assets and the sum of the liabilities represents the net investment, or net capital, of the business. This difference should be added to the list of the liabilities of the business, since it is the amount which the business owes to the proprietor or partners.

After this statement of assets and liabilities is completed, it is easily journalized by the following rule:

Debit the assets; credit the liabilities; credit the proprietor or partners for the difference between the assets and the liabilities.

This rule will make a complete journal entry of any opening statement.

By this method, the opening statement of the assets and liabilities of any business is included in one journal entry.

If desired, however, a separate entry may be made for the assets and another for the liabilities. In this case the rule would be:

Debit the assets and credit the proprietor for the total; credit the liabilities and debit the proprietor for the total.

The opening entry of a business is placed in the journal (unless the only item is cash), the cash being included in the entry as a matter of convenience and to show the complete investment in one entry. The cash investment is entered also in the cash book, but is checked off so that it will not be posted a second time to the credit of the proprietor or partners. In the journal the cash debit is checked off when the entry is made in the cash book.

Investment of Single Resource by Single Proprietor

This is the simplest kind of opening transaction. The form of the entry required has been shown in previous work.

Investment of Several Resources by Single Proprietor

Make on journal paper the opening entries (journal and cash book) for the following:

1 Geo. W. Carter begins the Coffee, Tea, and Spice business this day with the following assets: Cash on hand and in bank, $385; merchandise as per inventory, $1250; store fixtures, $275; Jno. Harper owes on account, $25.

The entry below illustrates the proper form of journal entry.

	G. T. Berry has this day commenced the Tea, Coffee, and Spice business at 309 Elm St., investing assets as follows:			
	Cash	on hand and in bank	400	
	Inventory	per schedule	1500	
	Store Fixtures	" "	300	
	Jno. Harper	on account	50	
	G. T. Berry	investmen		2250

Do not neglect to check off the cash investment entry in both journal and cash book.

2 James Wooley begins business with the following assets: Cash in safe, $125; cash in bank, $3675; store building and lot, $5000; goods per inventory, $2500; Harry Altenau owes, $140; Daniel Jenkins owes, $320; note of Davis Bros. per B. B., $627.50; interest accrued on above note to date, $6.28.

3 E. M. Harrigan begins business with these assets: Cash in bank, $3750; merchandise as per inventory, $5378; office safe, $375; typewriter and other office furniture, $200; building and lot partially occupied by business, $7000. The following firms owe Harrigan on account: Harrison Loeb, $126; Fay & Eagan Co., $75.84; Jones Bros. Co., $186.75.

Investment of Assets and Liabilities by Single Proprietor

4 J. W. Jones has this day opened a Wood and Coal business at 125 W. Fifth St., with the following assets and liabilities:

ASSETS. — Cash on hand and in bank, $675.50; merchandise as per inventory, $1672.25; horses and wagons valued at $570; S. M. Blue on account, $72.50; J. D. Simpson on account, $45.

LIABILITIES. — Due Jno. Solzer & Co., on account, $395; due H. C. Bailey on 30 da. note, $500.

The following illustrates the form of journal entry required.

	Cash	on hand and in bank	700	
	Inventory	per schedule	1345	
	Horse & Wagon	" "	590	
	E. H. Beel	on account	73	
	E. L. Schuler	" "	50	
	R. E. Brown & Co.	" "		400
	Notes Payable	30 da. note		600
	J. W. Smith	net investment		1758

5 V. C. Taylor commenced business with cash, $5000; real estate, $12,000; merchandise, $8500; note for $1500 against J. Wilson, with accrued interest, $10.50; note for $600 against A. R. White, with interest accrued, $7.20; due from D. D. Jones on account, $175, and from J. C. Henry, $375. Taylor owes on a note to Carl D. Steiner, $460; interest accrued on this note, $9; Taylor owes on account to Brown & Jones, $1265.50, and to Jacob J. Anstead, $324.75.

Opening Entries of Partnerships

6 Harry Peck and Joseph Long form a partnership under the firm name of Peck & Co., for the purpose of conducting the Furniture business. Peck invests cash $5000, and Long invests $3000.

Make the entry, debiting cash for the total amount of money invested, this being the asset at beginning, and crediting the partners for their respective investments.

7 John Shaler, Henry Desmond, and J. C. Cunningham have formed a partnership under the style of Shaler, Desmond & Co., to carry on the dry goods business. Their investments are as follows:

Shaler invests cash, $3000; stock of goods, $2000; sundry personal accounts due him amounting to $1500; and Henry Gorman's note, $500, with accrued interest, $5.

Desmond invests cash, $2000; store building and lot, $7000.

Cunningham's investment consists of cash, $1500, and 50 shares of Pa. R. R. stock at the market value of $120 per share.

Make one entry for the entire opening transaction, debiting assets and crediting liabilities. The only liabilities in this case are to the three partners for the amount of their investments. Debit *Accounts Receivable* for the total of personal accounts due.

8 Thomas Bender and J. B. Potter have this day formed a partnership and will hereafter conduct their respective businesses as one business under the style of Bender & Potter.

Bender's statement of assets and liabilities is as follows:

Assets. — Cash on hand, $1000; stock of groceries, $1125; outstanding accounts, $395; store and office fixtures, $890; office furniture, $250.

Liabilities. — Due sundry creditors on account, $500; notes outstanding, $750.

Potter's statement is as follows:

Assets. — Cash, $1500; stock of coffee, tea and spices, $2000; store lot and building, $6000; rent due on part of storeroom, $200.

Liabilities. — Due creditors on account, $1500; mortgage on store building, $3000.

Make entry for the opening statement of the new firm. Credit *Accounts Payable* for the total due creditors. Credit *Mortgages Payable* for the mortgage.

THE WORKING SHEET

A Working Sheet is an exhibit on a single sheet of the trial balance, profits and losses, assets and liabilities. If adjustments are made after the preliminary trial balance is taken, the working sheet will also show the adjustments and the final trial balance. Page 141.

Exercise 18

Assume that at the end of December the books of Ames & Hammond show the following trial balance, no adjustments having been made:

AMES & HAMMOND,

TRIAL BALANCE, DECEMBER 31, 19—

Cash	$ 1176.75	
Notes Receivable	700.	
Accounts Receivable	5267.83	
Furniture and Fixtures	500.	
Delivery Equipment	2600.	
Notes Payable		$ 900.
Accounts Payable		2250.60
J. H. Ames, Capital		5000.
J. H. Ames, Personal	250.	
T. B. Hammond, Capital		5000.
T. B. Hammond, Personal	175.	
Sales		23305.40
Purchases	22984.92	
Freight and Cartage	173.50	
Insurance Prepaid	150.	
Selling Expenses	1263.	
Delivery Expenses	817.50	
General Expenses	367.90	
Discounts on Purchases		172.60
Interest on Notes Receivable		13.75
Interest on Notes Payable	62.15	
Discounts on Sales	153.80	
	36642.35	36642.35

No adjustments were made before taking the trial balance, and the following adjustments have to be made.

The inventory of goods on hand is $5826.35; Freight and Cartage bills due and unpaid, $27.60; the insurance expense amounts to $75, which sum is to be charged to Selling Expenses; wages accrued amount to $73.50 for salesmen, and $36.50 for office workers; interest accrued on Notes Receivable amounts to $17.50; interest accrued on Notes Payable amounts to $12.35.

The following adjustment entries are required.

Inventory	$5826.35	
Purchases		5826.35
Freight and Cartage	27.60	
Freight and Cartage Accrued		$ 27.60
Selling Expenses	73.50	
General Expenses	36.50	
Wages and Salaries Accrued		110.
Selling Expenses	75.	
Insurance Prepaid		75.
Interest on Notes Receivable Accrued	17.50	
Interest on Notes Receivable		17.50
Interest on Notes Payable	12.35	
Interest on Notes Payable Accrued		12.35

The adjusting entries, of course, are posted to the ledger as well as entered upon the working sheet. They might have been entered in the ledger before a trial balance was taken, in which case the trial balance shown on the working sheet would be the adjusted trial balance.

From this adjusted trial balance, it is a simple matter to extend each balance into the proper column, either loss, profit, asset, or liability.

All debit balances on the trial balance are extended into either the loss column, or the asset column; all credit balances are extended into either the profit column or the liability column. The debits and credits are equal; therefore, Losses + Assets = Profits + Liabilities, from which Assets − Liabilities = Profits − Losses.

Or, stated otherwise, the difference between the assets and liabilities equals the difference between the profits and losses. The proof is similar to the proof used for the two statements (Profit and Loss and Balance Sheet) with which the student is familiar, except that on the working sheet the capital accounts are extended with the liabilities, instead of withheld until the conclusion. While either form may be used, the form shown seems to be most convenient.

The working sheet does not take the place of the Profit and Loss statement and the Balance Sheet. It is a sort of survey made by the bookkeeper as a preliminary to making the formal statements.

Study carefully the Working Sheet on page 141, made up from the preceding data. Complete the exercise by preparing a Profit and Loss statement and a Balance Sheet in the usual form, and make journal entries to close the ledger.

AMES & HAMMOND

Working Sheet for Year Ending December 31, 19—

Accounts	Trial Balance		Adjustments		Adjusted Trial Balance		Profit and Loss		Balance Sheet	
	Debits	Credits	Dr.	Cr.	Dr.	Cr.	Losses	Profits	Assets	Liabilities
Cash	$1,176 75				$1,176 75				$1,176 75	
Notes Receivable	700				700				700	
Accounts Receivable	5,267 83				5,267 83				5,267 83	
Furniture and Fixtures	500				500				500	
Delivery Equipment	2,600				2,600				2,600	
Notes Payable		900				900				900
Accounts Payable		2,250 60				2,250 60				2,250 60
J. H. Ames, Capital		5,000				5,000				5,000
J. H. Ames, Personal	250				250				250	
T. B. Hammond, Capital		5,000				5,000				5,000
T. B. Hammond, Personal	175				175				175	
Sales		23,305 40				23,305 40		23,305 40		
Purchases	22,984 92			5,826 35	17,158 57		17,158 57			
Freight and Cartage	173 50		27 60		201 10		201 10			
Insurance Prepaid	150			75	75				75	
Selling Expenses	1,263		148 50		1,411 50		1,411 50			
Delivery Expenses	817 50				817 50		817 50			
General Expenses	367 90		36 50		404 40		404 40			
Discounts on Purchases		172 60				172 60		172 60		
Interest on Notes Receivable		13 75		17 50		31 25		31 25		
Interest on Notes Payable	62 15		12 35		74 50		74 50			
Discounts on Sales	153 80				153 80		153 80			
	$36,642 35	$36,642 35								
Inventory			5,826 35		5,826 35				5,826 35	
Freight and Cartage Accrued				27 60		27 60				27 60
Wages and Salaries Accrued				110		110				110
Interest on Notes Rec. Accrued			17 50		17 50				17 50	
Interest on Notes Pay. Accrued				12 35		12 35				12 35
			$6,068 80	$6,068 80	$36,809 80	$36,809 80				
Net Profit							3,287 88			
							$23,509 25	$23,509 25		
J. H. Ames ½										1,643 94
T. B. Hammond ½										1,643 94
									$16,588 43	$16,588 43

Exercise 19

The following trial balance was taken from the books of J. C. Brown, July 1, 19—:

Cash	$ 2160.50	
Notes Receivable	3125.50	
Accounts Receivable	6465.95	
Real Estate	10000.	
Furniture and Fixtures	800.	
Insurance Prepaid	215.	
Notes Payable		$ 5600.
Accounts Payable		5560.23
James C. Brown, Capital		15000.
Purchases	22675.50	
Freight and Cartage	173.80	
General Expenses	1016.80	
Selling Expenses	1365.08	
Real Estate Expenses	195.	
Interest on Notes Payable	75.80	
Discount on Notes Receivable	43.75	
Discounts on Sales	116.80	
Sales		21962.03
Interest on Notes Receivable		84.12
Discount on Notes Payable		47.50
Discounts on Purchases		175.60
	$48429.48	$48429.48

The following adjustments are to be made:

Of the Insurance Prepaid, $130 has been used up. Charge $75 to Real Estate Expenses and $55 to Selling Expenses. (Credit Insurance Prepaid.) Freight bills due and unpaid amount to $43.80. (Credit Freight and Cartage Accrued.) Bookkeeper's and stenographer's salaries accrued, $45. Clerks' wages accrued, $54. (Credit Wages and Salaries Accrued.) Interest accrued on Notes Payable outstanding, $23.80. Interest accrued on Notes Receivable, $56.90.

Inventory of merchandise unsold, $6578.98.

Required:

(*a*) Adjusting entries.

(*b*) Working Sheet, showing preliminary trial balance, adjustments, adjusted trial balance, losses, profits, assets, liabilities.

(*c*) Journal entries to close.

(*d*) Rate of profit on sales.

(*e*) Rate of profit on cost of sales.

(*f*) Rate of profit on capital invested.

SINGLE ENTRY

In single-entry bookkeeping the ledger contains only accounts with persons, and consequently only such entries as affect personal accounts should appear in a single-entry journal. There is no equality of debits and credits in single-entry bookkeeping, and therefore the journal entries will, in most cases, contain only a single debit or credit. (See model below.)

The rules for journalizing in single entry are exactly the same as in double entry, so far as personal accounts are concerned. A good plan for the student who knows double-entry bookkeeping, is to decide first what the journal entry would be by the double-entry method. Any persons debited or credited in the double-entry journal should be debited or credited in the same way in the single-entry journal. All other debits and credits should be omitted.

Pure single entry; that is, accounts with persons only, is rarely used because the record is too inadequate. A cash book, at least, is necessary in addition to the journal. If a transaction affects both a personal account and cash, the entry may be made in the cash book only, or if it is proposed to use the journal exclusively as a posting medium, it may be made in both books. In the latter case, the cash book is kept solely as a cash record and no posting is done from the cash book.

In the following illustrations, entries affecting both cash and a personal account are entered in the cash book only; all other entries affecting personal accounts are entered in the journal only.

Study the model of a single-entry cash book, showing the records which would be made by single-entry bookkeeping for the transactions shown in the model journal on pages 9 and 11. The cash book may be kept in the double-entry form if desired.

MODEL SINGLE-ENTRY CASH BOOK

DATE	L.F.	DR. OR. CR.	ACCOUNT AND EXPLANATION	RECEIPTS	PAYMENTS
19–					
Jan. 1		Cr.	A. H. Harper, Capital	3000	
2			Gave J. M. Hastings cash for Jan. rent		75
4		Dr.	A. H. Roe & Co. Paid Invoice No. 1		780
5		Cr.	W. J. Leach Invoice of Jan. 4	450	
13		Cr.	J. B. Allen On a/c	100	
"		Dr.	J. Grant & Co. Invoice No. 2		198
25			Paid Clerk's wages to date	3350	1760
				3550	3550
Jan. 31			Balance	2437	

On the following page is a model of a single-entry journal, showing the records which would be made by single-entry bookkeeping for the transactions shown in the model journal on pages 9 and 10. In single-entry bookkeeping, the journal is frequently called the daybook.

January 1, 19-

C. H. Harper has commenced the Flour and Grain business at 346 Elm Street, investing cash $3000.

3

A. H. Roe & Co. Cr. 780
Bot. Invoice No. 1. Terms: cash

4

W. J. Leach Dr. 450
Sold him 50 bbl. Flour at 9.00
Terms: cash

5

J. B. Allen Dr. 225
Sold him 25 bbl. Flour at 9.00
Terms: On a/c

8

J. Grant & Co. Cr. 198
Bot. Invoice No. 2. Terms: a/c 30 days

9

A. B. Frye Dr. 338
Sold him 25 bbl Flour at 9.20
150 bu. Oats at 72¢ Terms: 20-day note

10

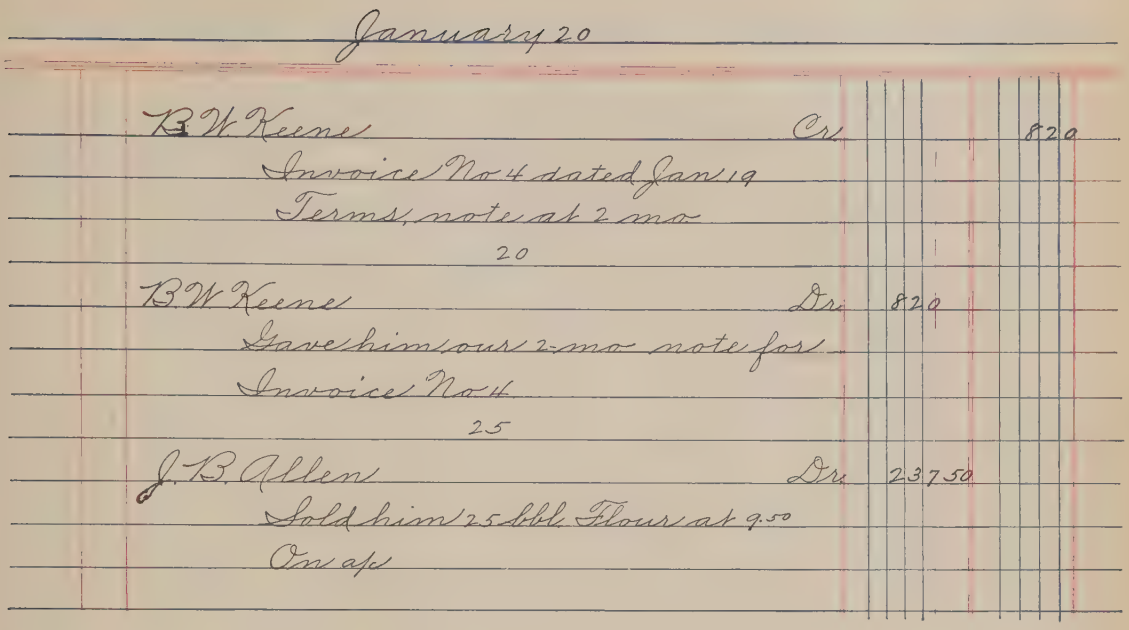
A. B. Frye Cr. 338
Received his 20-day note dated Jan. 9 for our invoice of that date

11

Garland & Co. Cr. 571
Bot. Inv. No. 3 dated Jan. 9
Terms: note 45 days

"

Garland & Co. Dr. 571
Gave our note at 45 days for Inv. #3.


January 20
B W Keene Cr. 820
Invoice No 4 dated Jan 19
Terms, note at 2 mo
20
B W Keene Dr. 820
Gave him our 2-mo note for
Invoice No 4
25
J B Allen Dr. 237 50
Sold him 25 bbl Flour at 9.50
On a/c

Posting. — Only personal accounts are posted.

A record of notes issued and of notes received may be kept in a note book, and these records, with an inventory taken in the usual manner, will enable the bookkeeper to prepare a statement at any time showing the assets and liabilities, the net worth and the net gain of the business.

The cash book shows the amount of cash on hand, $2437. The inventory of unsold merchandise, if taken Jan. 31, would show goods on hand to the value of $1670. The note book, if kept, would show note for $338 in favor of the business, signed by A. B. Frye; and the following notes outstanding — one in favor of Garland & Co. for $571, and one in favor of B. W. Keene for $820.

The ledger, if posted, would show Harper's investment of $3000, and J. B. Allen's indebtedness of $362.50.

From the foregoing data it will be easy to prepare a statement of assets and liabilities according to the following model:

STATEMENT OF ASSETS AND LIABILITIES, JANUARY 31, 19—

		Assets	Liabilities
Cash	on hand	.....	
Notes Receivable	as per notes receivable book	.....	
Inventory	merchandise on hand	.....	
J. B. Allen	owes on account	.....	
Notes Payable	as per notes payable book		.....
A. H. Harper	net worth		.....

A. H. Harper's net gain or net loss may now be found by comparing his net worth with his investment, according to the following form:

STATEMENT OF A. H. HARPER'S GAIN

A. H. Harper's net worth January 31, 19—	$3416.50
" " " investment	3000.
" " " net gain	$416.50

A journal entry is now made crediting A. H. Harper for his net gain, and this entry is posted to his account in the ledger.

CHANGING FROM SINGLE TO DOUBLE ENTRY

If A. H. Harper should desire to change his books from single entry to double entry, he would first prepare a statement of Assets and Liabilities as heretofore explained. He would then make a journal entry of the assets and liabilities, debiting the former and crediting the latter. The form of the entry would be as follows:

Cash	on hand	2437		
Notes Receivable	as per N. R. book	338		
Inventory	merchandise on hand	1670		
J. B. Allen	on account	362	50	
Notes Payable	as per N. P. book			1391
A. H. Harper	net worth			3416 50

Posting. — After this entry is made it should be posted, excepting those accounts which are already in the ledger, which should be checked.

The books would then be on a double-entry basis and ready for the double-entry record of further transactions. Any other books desired may be added.

AN EXERCISE IN SINGLE ENTRY

Record the following transactions by the single-entry system, using the journal, cash book, notes receivable book, and notes payable book.

Jan. 1, 19— You have commenced the retail furniture business with the following investment: a stock of furniture valued at $1968.75; office furniture, fixtures, and books, valued at $300; cash in the City National Bank, $1245.50.

Enter in the journal according to the following form:

Jas. B. Houghton, Capital		Cr.	2210
Commenced the Furniture business investing as follows:			
Cash in bank, as per C. B.	460		
Furniture valued at	1500		
Office furniture and fixtures	250		

Make an entry in the cash book for the amount of your cash investment. Place a check mark in the folio column, indicating that the amount is not to be posted, since it is included in your credit in the journal entry.

1 Bought of the Grand Rapids Furniture Co., Grand Rapids, Mich., on account 30 days, furniture as per invoice, $1468.20.

1 Paid freight on the above invoice, $62.25. (Cash book.) No personal account is affected. The entry is made only on account of the cash record.

2 Sold Wm. Rand, on a/c, invoice of furniture amounting to $92.

3 Sold sundry items for cash, $104.50. (Cash book.)

4 Sold Thomas W. Parsons, on a/c, invoice of furniture amounting to $25.

4 Sold E. M. Wardner, on a/c, invoice of furniture amounting to $130.

5 Bought of E. M. Farmer & Co., Detroit, merchandise as per invoice, $550. Gave them in part payment your note at 30 days for $250; balance on account 4 mos.

Make two entries in the journal. Credit E. M. Farmer & Co. for the invoice; debit them for the note. Record the note in the notes payable book.

5 Paid freight on above invoice, $27.50.

6 Paid rent, $60; insurance premium, $30.

6 Sold sundry items for cash, $24.75.

6 Sold Emma B. Sheridan, on a/c, invoice of furniture amounting to $456. Received cash on account of same, $150.

Entry in the journal and in the cash book.

Balance the cash, writing the balance in red ink in the smaller column. Rule, foot, and bring down the balance to commence the next week.

8 Sold C. H. Stratton, Elm House, invoice of furniture amounting to $385.

8 Paid Grand Rapids Furniture Co. on account, $500.

8 Sold sundry items for cash, $46.50.

9 Sold Wm. M. Rand, on a/c, invoice of furniture amounting to $191. Received cash on a/c, $100.

10 Bought of E. F. Higgins & Co., Michigan City, Ind., furniture as per invoice, $498.75.

10 Paid freight on the above invoice, $24.93.

11 Paid cash for books and stationery, $7.50, and for a horse and delivery wagon, $275.

12 Sold Mrs. Edward Leary, on a/c, invoice of furniture amounting to $144. Received cash on account, $44.

12 Sold sundry items for cash, $28.75.

13 Received of T. W. Parsons cash in full of account, $25.

13 Sold Edward Strang, on a/c, invoice of furniture amounting to $86.50.

13 Paid for clerk hire, $30.

Balance the cash book.

15 Received of C. H. Stratton his note at 60 days, to pay invoice of the 8th inst. Enter in the journal, and record the note in notes receivable book.

15 Paid the balance of E. M. Farmer & Co.'s invoice of the 5th inst., $300, less 5% of the full invoice. Discount $27.50; cash paid, $272.50. Debit E. M. Farmer & Co. in the cash book with the amount of cash paid, and in the journal with the amount of the discount. The two entries, when posted, will balance E. M. Farmer & Co.'s account.

15 Cash sales of merchandise, $48.50.

16 Bought of the Grand Rapids Furniture Co. merchandise invoiced at $1262.75.

16 Paid freight on the above invoice, $63.13.

16 Sold Thomas W. Parsons, on a/c, invoice of furniture amounting to $213.

17 Paid for advertising, $12; for shoeing horse, $1.25.

17 Sold Richard Vose, on a/c, invoice of furniture amounting to $159.50.

17 Cash sales, $38.75.

18 Bought of E. M. Farmer & Co., net 4 mo., 5/10, furniture invoiced at $490.50.

18 Paid freight on above invoice, $24.50.

19 Bought of J. D. Lansing & Bros., on a/c 90 days, 5/10, furniture invoiced at $633.25.

19 Paid freight on above invoice, $31.66.

19 Sold Morris Chaney, on a/c, invoice of furniture amounting to $52.50.

19 Cash sales, $47.75.

20 Sold H. M. Preston, on a/c, invoice of furniture amounting to $141.

20 Bought of Phillips Chair Co., Phillipsburg, Ind., net 4 mo., 5/10, furniture as per invoice, $244.75.

20 Paid freight on above invoice, $12.24.

20 Paid for hay and oats, $7.50; clerk hire, $20; postage and express charges, $2.50.

20 Cash sales, $69.87.

20 Sold Hunter & Allison, on a/c, invoice of furniture amounting to $250.

Balance the cash book.

22 Received of E. M. Wardner, to balance account of Jan. 4, cash, $30, and his note at 30 days, with interest, $100.

22 Received of Mrs. E. Leary $15, to apply on account.

22 Cash sales, $62.

22 Received of Edward Strang $50, to apply on account.

22 Sold Emma B. Sheridan invoice of furniture amounting to $86.

23 Hunter & Allison return goods for credit, $10.

23 Bought of E. F. Higgins & Co. furniture as per invoice, $235.75.

23 Paid freight on above invoice, $11.75.

24 Accepted E. F. Higgins & Co.'s draft at 30 days, for amount of invoice of Jan. 10, $498.75.

24 Sold C. H. Stratton, on a/c, invoice of furniture amounting to $273.

25 Have C. H. Stratton's note of Jan. 15 discounted at the bank, and receive cash for proceeds. Face of note, $385; discount 50 days. Enter for net proceeds in cash book. No entry need be made for the discount, since the single-entry record is not concerned with it. Mark the note "Discounted" in the note book.

25 Sold E. M. Wardner, on a/c, invoice of furniture amounting to $90.50.

25 Bought of the Phillips Chair Co. merchandise as per invoice, $192.85.

25 Paid freight on above invoice, $9.65.

26 Paid Lansing Bros. for invoice of the 19th, less 5%. Debit Lansing Bros. in the cash book with the amount of cash paid, and in the journal for the amount of the discount.

26 Cash sales, $84.60.

27 Received of Hunter & Allison, to balance account, cash, $40, and their note at 4 mo., with interest, for $200.

27 Sold Edward Strang, on a/c, invoice of furniture amounting to $39.50. Received $50 to apply on account.

27 Balance the cash book.

29 Sold Richard Vose, on a/c, invoice of furniture amounting to $27.50. Received $50 to apply on his account.

29 Returned to the Phillips Chair Co. goods for credit, $36. Debit Phillips Chair Co.

29 Cash sales, $91.40.

30 Paid Phillips Chair Co. for invoice of Jan. 20, less 5%.

30 Bought of Lansing & Bros. 4 mos., 5/10, merchandise as per invoice, $498.70.

30 Received from H. M. Preston, on a/c, $75.

30 Sold Morris Chaney, on a/c, invoice of furniture amounting to $46.50.

31 Paid clerk hire, $30.

31 Cash sales, $62.87.

31 Sold Mrs. E. Leary, on a/c, invoice of furniture amounting to $61.50. Received cash to apply on account, $25.

Balance the cash book. Open ledger accounts with persons only, and post from the cash book and journal all items affecting those accounts. Since there is no equality of debits and credits, it is impossible to take a trial balance.

Your inventory shows merchandise on hand, valued at $5040.75; horse and wagon, valued at $275; office furniture, fixtures, and books, valued at $275; insurance prepaid, $27.50.

Find from your ledger the amounts due from personal accounts; from your notes receivable book and notes payable book the value of notes on hand, also the notes outstanding. From your ledger find the balances due from you to other firms.

Prepare a statement of assets and liabilities. Determine the net profit. Make and post a journal entry, crediting your capital account with the net profit.

Make the necessary entries to change the books from single to double entry. Post to the ledger, take a trial balance, and submit to your teacher for approval.

REVIEW QUESTIONS

1 What is the distinction between personal and impersonal accounts?

2 How are impersonal accounts subdivided?

3 What is insolvency?

4 How are assets classified with reference to their availability for use in the business?

5 What are current liabilities? Deferred liabilities? Fixed liabilities?

6 How should assets and liabilities be arranged on the balance sheet?

7 What should a bookkeeper do upon taking charge of a set of books?

8 If an asset or liability is omitted from the opening entry, how is the omission corrected?

9 How is Cash Short and Over treated?

10 What is a protest?

11 How should errors be corrected if they are not discovered until after the entries have been posted?

12 Into what two classes are books of account divided?

13 What is a stock book?

14 Does a stock book make it unnecessary to take a physical inventory?

15 Describe two different ways of handling discounts where no special column is provided in the cash book.

16 What is accrued interest? Prepaid interest?

17 If the proceeds of an invoice are given, how is the face of the invoice found?

18 What is the rule for making opening entries?

19 What is a working sheet?

20 How does single entry differ from double entry?

21 How is it possible to find the profit or loss in single entry?

22 What is necessary in order to change from single entry to double entry?

ADVANCED COURSE

Based upon the Neal & Cragin edition of Modern Illustrative Bookkeeping, Advanced Course, with revised classification of accounts and financial statements by Charles F. Rittenhouse, C. P. A.

(NEW M. I. B. ELEM. AND ADV.)

INTRODUCTION

The Advanced Course is designed to show the application of the principles of bookkeeping to the records of special lines of business; the development of the simple forms of books into special forms; and the classification and subdivision of accounts.

The lines of business selected are representative of four important departments of business activity — retailing, commission, wholesaling, and manufacturing. In connection with each, approved forms of records are shown, and modern methods of business procedure are explained and illustrated.

The student in taking up the work of the Advanced Course will be dealing in a sense with the selfsame transactions as in the Elementary Course, namely, goods are bought and sold, payments are made and received, notes are issued and redeemed, expenses are incurred, losses suffered, and profits realized. The difference between the elementary work and the advanced work consists in the use, in the advanced work, of certain labor-saving forms whereby is minimized the necessary burden of recording transactions. In fact, the object of advanced bookkeeping is found in its endeavor to perform the work of the bookkeeper more expeditiously and easily. Of course many new things will be covered and the student will have occasion to enlarge upon the work that has already been covered in the Elementary Course, namely, many new accounts will arise in the form of assets and liabilities, and profits and losses. The application of these new accounts to the balance sheet, and the profit and loss statements, will be on a broader and more comprehensive scale.

Bookkeeping and Accounting. — Accounting includes Bookkeeping, as the term is generally understood, and covers the whole field of account keeping, while Bookkeeping is restricted to a particular part of the field, namely, the records of the transactions.

Accounting deals chiefly with the scientific arrangement of the forms of the record mediums, such as the books, etc., the classification of the accounts, so as to cause them to show in detail the results and condition of the business, and with the statements of these results and condition. Bookkeeping deals chiefly with the making of the records, according to the classification of the accounts, and the arrangement of the forms of the record mediums, suggested by the principles of accounting. A person who makes the records of business transactions is called a " bookkeeper." One who performs the work of classifying accounts, arranging the forms of record mediums, supervising the records, and making statements of the results and condition of a business is called an " accountant." A person who examines the records for the purpose of verifying their accuracy is called an " auditor."

Business men are now giving more attention to the character of the statements submitted to them by their accountants or bookkeepers, and employers may at any time call for statements that shall be comprehensive enough to provide them with exact information as to the general details of their business condition. These requirements have led to the present revision of this text so that the bookkeeper may be enabled to prepare statements that will be standard in form and usage, and of such character that an employer will be able to read from them easily and intelligently, the exact condition of his business. Business men have learned

that the proper kinds of business and financial statements are highly important and necessary, since they tend to insure success in many ways.

It has not been long since many business houses were satisfied with using merely a single entry system of bookkeeping. The finding of an inventory of assets and liabilities at the end of the year was considered a fair basis for the determination of the financial condition of the business. From this form of inventory accounts were classified as to assets and liabilities, and this classified list was called a balance sheet. The difference between the assets and liabilities would show the surplus or deficit. The profit or loss for a given period was determined by comparing the surplus or deficit at the end of the period with that of the beginning of the period.

This form of statement was unsatisfactory as it would show only the extent of the profit or loss, and would not show how either was made. Ordinarily such a statement was made at the end of the year, and as it then showed results in an unsatisfactory way, the demand grew for more frequent statements, which should be in more definite and detailed form, so that such questions as "How was this profit secured?" or "How was this loss sustained?" can be satisfactorily answered.

With the aid of double entry bookkeeping and the use of nominal and real accounts, a more accurate and detailed form of profit and loss statement could be made and a balance sheet prepared. These statements mean much to the business man of to-day and they are made an important feature of the Advanced Course. The student comes in contact with many new nominal and real accounts, and through the medium of adjustment entries, which are taken up at the end of each unit of work, is thereby enabled to prepare profit and loss statements and balance sheets that reflect the true financial condition of any business.

In the Advanced Course the student will perform the duties of bookkeeper, accountant, and auditor. It should also be noted that the prices of commodities, appearing in the various forms and transactions, are generally below the normal market quotations. The purpose, however, of this work is primarily to give practice in billing and to encourage individual effort on the part of the student and not to teach market conditions and prices, which are always subject to more or less fluctuation.

RETAIL GROCERY BUSINESS

THE following transactions are designed to illustrate a system of bookkeeping for a modern retail grocery business, at first by single entry, after which will be shown the method of changing from single entry to double entry, of continuing the business by double entry, and of incidentally showing the use of the card ledger system of bookkeeping.

Single entry books differ from those used in double entry bookkeeping chiefly in the fact that a single entry ledger contains only accounts with persons, all property and loss and gain accounts being omitted.

The principle of equal debits and credits, belonging to double entry, is not a part of single entry bookkeeping, and consequently no equality exists between the debit and credit sides of the ledger, and no trial balance can be taken of a single entry ledger.

An account with cash should be kept in the cash book, as in double entry bookkeeping, and by means of notes receivable and notes payable books it will be easy to keep a record of notes receivable and notes payable. A record of merchandise may be kept by the use of a purchases journal and a sales book.

In a well-arranged set of single entry books it is possible to show as complete a record of the business as in a set of books kept by double entry, but it will not be in so compact a form, and it requires more work on the part of the bookkeeper.

Proof of Posting. — While no trial balance can be taken of a single entry ledger, the correctness of the posting can be determined with the same degree of accuracy as in a double entry ledger, by proving the posting. This is done by finding first, the total of the charge postings in the ledger for the month, and the total of the charge entries in the books of original entry, and then comparing the two amounts; second, by finding the total of the credit postings, and the total of the credit entries in the books of original entry, and then comparing the two amounts. This is called a *proof of posting.*

Books Used. — In order that a complete record of the following business may be obtained by single entry, the books used will be as follows: journal, cash book, abstract sales book, purchases journal, notes receivable and notes payable books, general ledger, and card ledger, using the card ledger only for customers' accounts. A simpler, but less effective, set of single entry books would consist of journal, cash book, and ledger.

Journal. — The journal contains such debits and credits to personal accounts as are not entered in the cash book and on the sales sheets, from which the abstract sales book is made up. The abbreviation *Dr.* or *Cr.* is written after the title of the account, in each entry, and the explanation underneath. The form on page 156 illustrates the journal.

Sales Slips. — In most modern grocery stores sales slips are used, and when sales of merchandise on account are made, the slips are written in duplicate by means of carbon paper by the salesman as he takes the order, verbally, or from an order book. The form on page 157 illustrates the sales slip.

The original and duplicate sales slips are sent to the office to have the prices O.K.'d. The original is retained by the bookkeeper, the duplicate being sent with the goods when they are

JOURNAL

October 1, 19 -

L.P.				
	Thomas E. Sears Cr.			2500
	Commenced this day at 186 Main St. the Retail Grocery business. having purchased the stock in trade and good-will of E. R. Fursman & Co. for $2500 cash, this amount being 80% of the value of said stock as shown by inventory			
	2			
	E. M. Hyde & Co. Dr.			200
	Gave them my note at 10 da. payable at City Bank to apply on acct.			
	7			
	B. F. Perkins Cr.			60
	Received his note at 30 days to balance his acct. to Oct. 1.			
	10			
	Thomas E. Sears Dr.			3880
	Took from the store for private use			
	2 bbl. Flour	$6.25	1250	
	20# Sugar	6^{2}	130	
	1 hf. cht. Japan Tea 50#	50¢	25	
	14			
	Geo. H. Glenn Cr.			125
	Bought of him a delivery wagon to be paid for in 30 days			
	16			
	Thomas E. Sears Cr.			150
	Furnished a horse for use on delivery wagon			

October 22, 19–

S. S. Pierce & Co. Dr. 59 25

Returned as not up to standard

1 bale Mocha 125# 25¢ 31 25

1 hf. cht Y. H. Tea 70# 40¢ 28

delivered. Since the customer receives a complete bill with each lot of goods purchased, there is little chance for mistakes, or for a dispute, when the weekly or monthly statement is rendered. The bookkeeper enters the amount of each sales slip upon his abstract sales sheet for the day.

Abstract Sales Sheet. — The form on page 158 illustrates a daily abstract sales sheet, in which the names of the customers and the amounts of the sales on account are given, together with the cash sales for the day, and total daily sales.

Many bookkeepers keep an abstract sales *book* in the form shown on page 159, and post directly from this book to the customer's account in the ledger. A better method is to enter the amount of each sale on account in the abstract sales *sheet* for the day, and to carry only the total of the day's sales to the abstract sales book at the close of each day. Then post daily the items from the sales slip to the customer's monthly statement sheet, and carry only the total of this monthly sheet to the debit of the customer, at the end of the week or month, on his ledger card, or page, in case a book is used instead of cards. This method is preferable, as these sales slips are original entries, and it is to them that reference must be made if any discrepancy exists between an account rendered and the record kept by a customer. The bookkeeper should post these

SALES SLIP

THOS. E. SEARS

Rochester, N. Y. Oct. 4, 19–

Name E. M. Parsons

Address #25 Glasgow St.

TIME TAKEN | WHEN WANTED | TRANSACTION

SALESMAN		ARTICLES	BOXES	JUGS	BROOMS
4		10	1	1	1

1	5# Sugar		33
2	12 Eggs		30
3	2# Butter		52
4	1 Bread		05
5	⅌K Potatoes		15
6	Broom		35
7	1# Coffee		26
8	½# Tea		30
9	1 Ketchup		23
10	1 Molasses		30
11			
12		2	79
13			
14			
15			
16			
17			
18			

PLEASE RETURN THIS BILL IN CASE OF ERROR.

MANUFACTURED UNDER PATENTS OF THE CARTER-CRUME COMPANY, LIMITED. NIAGARA FALLS, N.Y.

No. 279 ABSTRACT SALES SHEET, Oct. 4, 19 -

Ticket No.	L F	NAME	ADDRESS	Amount of Sale	Total Daily Sales
		Miss S. T. Worthen		4 28	
		A. B. Ryder		73	
		Eagle Hotel		12 47	
		Mrs. Wm. Hanson		2 11	
		Wm. Harper		1 34	
		Edw. Austin		3 41	
		E. M. Parsons		2 70	
		Chas. Hardy		4 13	
		G. C. Carter			
		A. V. Truman		2 45	
		W. B. Allen		4 27	
		Cash Sales as per cash tickets		72 24	111 46

sales slips daily to the monthly statement sheets. When the posting is completed, the sales slips should be filed alphabetically, or each day's slips placed in a separate package, so that they may be readily accessible, should they be required to verify a customer's monthly statement after it has been rendered.

Cash Sales. — For sales of merchandise for cash, a sales slip is used similar in form to that used for sales on account, as shown on page 157, except that it is receipted when the goods are delivered; or, if the sale is made in the store, the customer is given a cash ticket, which is presented with the money to the cashier, who files the ticket with the cash sales slips. The sum of the amounts of these tickets and of the cash sales slips represents the sum of the cash sales of the day, and should be carried to the Sales for Cash column of the abstract sales book, and also to the debit side of the cash book. (See form of abstract sales book, page 159, and the description of cash book, page 162.) The sum should also be entered at the end of the abstract sales sheet for the day, as shown above.

In retail stores where a cash or partly cash business is done, the cash register is now quite generally used. This is a combination cash drawer and record machine, and it is designed, among other things, to prevent mistakes and fraud in handling the cash. The cash register records the amount of the purchase on a strip within the machine, and at the same time indicates this amount on the outside where it can be easily seen by the customer. The cash in the register at any time should, of course, agree with the record on the strip. Some cash registers have special arrangements for recording and exhibiting the various sources from which the cash is received, and for other information, as "Cash Sales," "Cash Rec'd on Acct.," "Charge Sales," etc. A cash register of this kind is generally used in connection with a suitably adapted charge and credit system for customers' accounts.

Abstract Sales Book. — The abstract sales book contains columns for date, number of daily abstract sales sheet, sales on account, cash sales, total daily sales, total weekly sales, and total monthly sales, so that the book will show at a glance each day's business, both cash and credit, the sum total, and the total sales at the end of each week and month.

Abstract Sales Book

19 -

Date		From Sales Sheet No.	Sales on Account	Sales for Cash.	Total Daily.	Total Weekly.	Total Monthly.
Oct.	1	276	48 24	63 72	111 96		
	2	277	142 20	78 45	220 65		
	3	278	79 96	64 44	144 40		
	4	279	39 22	72 24	111 46		
	5	280	62 42	48 29	110 71		
	6	281	114 33	78 98	193 31	892 49	

It is evident that the sum of the footings of the Sales for Cash and Sales on Account columns of the abstract sales book will at any time show the total sales of merchandise to date.

The above form illustrates the abstract sales book.

In the series of transactions following, the daily abstract sales sheet will be used according to the form shown on page 158, and the abstract sales book will contain only totals, as shown in the above form.

PURCHASES JOURNAL

Date of Invoice.		L.F.	Name and	Address.	Terms.	When Due.	When Paid.	Amount of Invoice	Discount.	Amount Paid.
19—						19 -	19 -			
Oct.	1		F. H. Leggett & Co.	N. Y.	5% Cash	Oct. 1	Oct. 5	288 40	14 42	273 98
	2	✓	Wagons	City	Cash	2	2	14 25		14 25
	4		S. S. Pierce & Co.	Boston	Net Cash	4	7	422 75		422 75
	5		Park & Tilford	N. Y.	60 ds.	Dec. 4		822 45		
	7		F. H. Leggett & Co.		Net 30	Nov. 6		428 45		
	7	✓	White Bros.	City	Cash	Oct. 7	7	124 60		124 60
	10		J. D. Carson & Co.	Phila.	7/5	25	25	620	46 60	573 40
	15		S. S. Pierce & Co.	Boston	2/10	25	25	255 70	7 67	248 03
	18		E. M. Hyde & Co.	"	Net 30	Nov. 17		442 68		
	19	✓	E. H. Gray & Co.	City	Cash	Oct. 19	19	47 84		47 84
	23		Armour Pkg. Co.	Chicago	2/10	Nov. 2		286 40		
	25		Swift & Co.	"	2/10	4		442 65		
	28	✓	F. H. Leggett & Co.	N. Y.	1% Cash	28	30	345 60	3 46	342 14
	30	✓	White Bros.	City	Cash	30	30	39 68		39 68
			Mdse. purchases for Oct.					4581 45		
Nov.	1		S. S. Pierce & Co.	Boston	Net 30	Dec. 2		1248 70		

Purchases Journal. — The purchases journal is an abstract of the invoices of merchandise purchased in the regular course of business. Where the old form of invoice book is kept, it would be unnecessary to keep the purchases journal, since all the records of the invoices and

Model Form of Double Entry Cash Book for November

Cash Receipts

Date		L. F.	Accounts Cr.	Explanations	Accounts Receivable Cr.	Sundry Cr.	Discount on Notes Rec.	Net Receipts
19—								
Nov.	1		Balance					131 55
	1		M. E. Lynaugh			578 37		
	1		Mdse. Sales			221 45		799 82
			Mrs. F. Cooper		24 25			
			J. A. Smith		25			
			Mrs. A. Jackson		9 48			58 73
	8		Mdse. Sales			288 74		288 74
			A. B. Hooper		38 30			
			Mrs. S. T. Jones		15			
			P. J. Black		19 34			
			T. B. Odell		30			102 64
			Notes Receivable			842 68	8 96	833 72
	15		Mdse. Sales			362 28		
			E. B. Hyde		6 73			
			Mrs. A. Dolan		20			
			E. L. Doran		23 68			
			C. A. Murdy		26 95			
			Jas. B. Long		25			102 36
			Notes Receivable			112 40		
			Interest on Notes Rec.			93		475 61
	22		Mdse. Sales			422 16		422 16
			Mrs. S. T. Jones		5 66			
			Mrs. J. Judd		25			
			Wm. Black		26 41			
			Edward Cooper		26 07			
			T. B. Hazen		50			133 14
			Notes Receivable			622 85		
			Interest on Notes Rec.			6 32		629 17
Nov.	29		Mdse. Sales			436 98		436 98
			Mrs. A. Jackson		5 82			
			Mrs. J. Judd		24 11			
			J. B. Long		25			
			Horses & Wagons		90			144 93
			Notes Receivable			168 75	1 75	167
	29		Accounts Receivable Cr.		541 80			
	29	V	Sundries Cr.			4063 91		
	29		Discount on Notes Receivable Dr.				10 71	
	29		Cash Dr.					4595
			Balance November 1, 19—					131 55

Model Form of Double Entry Cash Book for November

Cash Disbursements

Date	L. F.	Accounts Dr.	Explanations	Accounts Payable Dr.	Sundry Dr.	Discount on Purchases	Net Payments
19—							
Nov. 1		Smith & Brown		100			100
		Amer. Paper Co.		114 72		1 25	113 47
		F. H. Smith & Co		144 70		10 34	134 36
		Jones Bros.		43 94			43 94
		U. S. Market Co.		8 44			8 44
		General Expense			50		
		Office Supplies			2 50		
		General Expense			4 75		
		Freight In			2 17		
		Salaries			12		
		Marsh			20		
		(Student)			25		116 42
8		Cobb Bates & Jones		162 74			162 74
		Park & Jackson		68 74		1 37	67 37
		F. H. Smith & Co.		68 94		5 07	63 87
		Brown & Co.		132 21		2 64	129 57
		Nielsen & Co.		142 38		2 85	139 53
		M. S. Baker & Sons		18 39		37	18 02
		Horses & Wagons			125		
		Horses & Wagons			100		
		U. S. Market & Co.		28 65			28 65
		General Expense			1 25		
		Stable Expense			5		
		Horses & Wagons			31		
		Freight In			1 96		
		Salaries			54		318 21
15		Smith & Brown		100			100
		Held Grocery Co.		151 15		7 56	143 59
		Notes Payable			458 95		
		Interest on Notes Pay.			1 53		
		Brown & Co.		98 37		1 97	96 40
		Amer. Paper Co.		69 98		70	69 28
		Insurance			35		
		U. S. Market Co.			63 42		
		Stable Expense			1 25		
		Stable Expense			10		
		Salaries			54		
		General Expense			1 87		
		Freight In			17 42		
		J. M. Marsh			60		
		(Student)			50		753 44
22		Huffcut Bros.		109 49		2 19	107 30
		S. M. Thompson & Co.		86 29		2 59	83 70
		Smith & Co.		102 40		1 02	101 38
		Stable Expense			10		
		General Expense			10		
		Salaries			54		
		Freight In			1 45		75 45
		U. S. Market Co.		46 28			46 28
29		Smith & Brown		100			100
		Horses & Wagons			125		
		M. S. Baker & Sons		48 13		48	47 65
		Brown & Co.		116 20		2 32	113 88
		Nielsen & Co.		178 95		5 37	173 58
		U. S. Market Co.		62 46			62 46
		Freight In			4 27		
		Stable Expense			10		
		Stable Expense			1 25		
		Salaries			54		
		J. M. Marsh			25		
		(Student)			25		244 52
29		Accounts Payable Dr.		2303 55			
29	V	Sundries Dr.			1508 04		
29		Discount on Purchases Cr.				48 09	
29		Cash Cr.					3763 50
29		Balance					963 05
							4726 55
19—							

MONTHLY STATEMENT.

Thos. E. Sears,
GROCER,

Liberty Building, Main St. East.
14, 18 and 20 Lake Avenue,
Plymouth Avenue, cor. Spring St.

Rochester, N. Y., Nov. 1, 19

Sold to E. M. Parsons.

Oct.	1	12 Eggs		28	
		2# Butter		60	
	2	1 bbl. Flour	4	75	
		3# Coffee		75	
		12 Oranges		35	
	4	5# G. Sugar		33	
		12 Eggs		30	
		2# Butter		52	
		Bread		05	
		Pk. Potatoes		15	
		Broom		35	
		Coffee		26	
		½# Tea		30	
		Ketchup		23	
		Molasses		30	
	9	bbl. Apples	2	00	
		bu. Potatoes		60	
	12	10# Sugar		65	
		Ct. Wheat		15	
	15	5# Butter	1	30	
		C. Peaches		20	
	24	2# Choc		60	
		Sardines		35	
		12 Eggs		30	
	28	2# Cheese		30	
		C. Pears		18	
	29	" Peas		15	
		" Tomatoes		10	16 40

also the items of these purchases would be found in the invoice book. Many bookkeepers, however, keep a purchases journal, and file the invoices loose, instead of pasting them into a book. In this series of transactions, no invoices are received by the student, but an abstract of invoices is kept in the purchases journal, which contains columns for the date of the invoice, the ledger folio, the name of the person or firm from whom the goods were bought, the terms of payment, the due date, the date of payment, the amount of the invoice, the discount, and the amount paid. The form on page 159 illustrates the purchases journal.

It is evident that the footing of the Amount of Invoice column in the purchases journal will, at any time, show the amount of purchases, and this amount will be the cost of purchases at any date. The total footing of the columns of the abstract sales book will show the amount of sales at any time.

Cash Book. — The cash book used in single entry does not differ materially from the simple form of cash book used in the Introductory Course. The left-hand page contains a record of all cash received, and the right-hand page a record of all cash paid out; also a special column for discount on purchases allowed on bills paid within the specified date. When such accounts are posted, two debit entries should be made on the personal account affected, one for the discount on purchases, and one for the net amount paid, thus canceling the amount of the invoice.

It is not necessary in a single entry cash book to write the name of the account affected by the transaction, except when it is a personal account, as only accounts with persons are kept in the ledger, and only those entries in the cash book which affect personal accounts will be posted to the ledger.

Customers' Statements. — In most grocery establishments where modern methods are in use, the items from the sales slips are not posted to the ledger account of the customer, but instead are posted directly from the sales slips to a monthly statement sheet, which at the end of the month is handed, or mailed, to the customer, and the total only of this sheet is posted

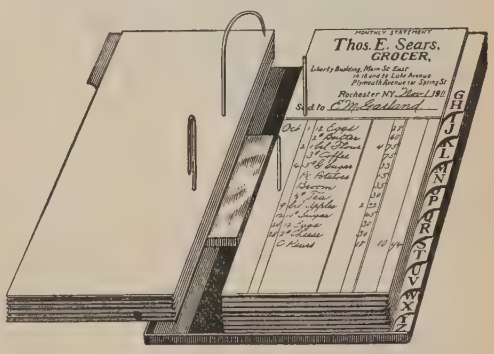
to his account in the ledger. When a statement sheet is handed in with cash to make payment of the account, the sheet is receipted and returned to the customer, who receives credit in the ledger for the amount of his payment in the regular posting from the cash book, where the payment should be entered when made. The postings to the statement sheets should be made at the end of each day before the sales slips of that day are filed away for reference. The form on page 162 illustrates a customer's statement sheet.

A shorter method would consist in posting to the customer's statement sheet only the totals of the sales slips, not repeating the items on the statement sheet. This would save a large amount of work to the bookkeeper, and if the customer keeps his sales slips delivered with each order, he can readily compare his statement sheet with his sales slips; but in practice it is found that customers do not invariably keep these sales slips, and there are more likely to be disputes about the amount of the monthly statement than when the items are repeated on the statement sheet as here illustrated.

Many small retailers keep only two books — cash book and ledger — in connection with the sales slip and statement system. They keep the original sales slips in alphabetical order in a cabinet, which contains wire racks or clips, and the statements in an account file, as explained below.

Ledger Account File. — Each day, after the customers' statement sheets are posted, they should be placed in an indexed file where they are readily accessible, and from which they should be removed as soon as the month's work is posted, and handed, or mailed, to the customer. An excellent form of file is the ledger account file shown in the accompanying illustration, which can be put in the safe at night, the same as an ordinary ledger.

Ledger Account File



Loose Leaf and Card Ledger Systems. — The system of bookkeeping by means of loose sheets and cards, properly indexed, in place of books, has grown rapidly in favor during the past few years; this is especially true in business houses where there are numerous departments, and where large number of books would be necessary in or er to keep a complete record. The records of the day are made on loose sheets, and these sheets are handed to the head bookkeeper, who places them in properly arranged files, so that the record of each day's business in every department is readily accessible. Out of this system of account keeping has grown what is known as the *card ledger*, a method of keeping ledger accounts on cards which possesses many advantages, among which are the following:

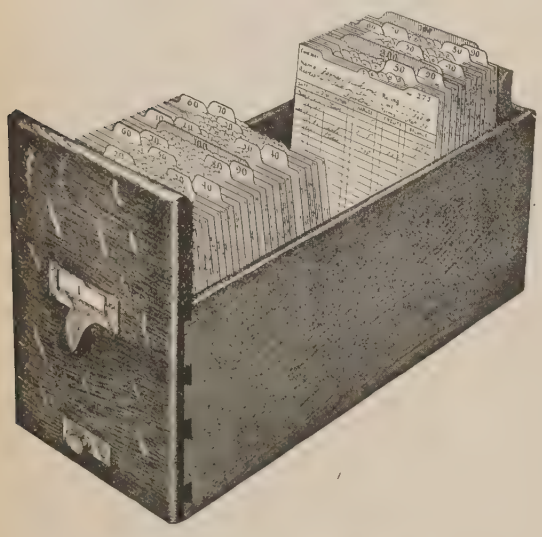
First, the ledger kept by this system contains no accounts with persons who have ceased to do business with the firm, for as soon as a customer closes his account, either by removing from the place, or by transferring his custom to some other business house, his card is taken from the receptacle containing the ledger cards and placed in a file kept for accounts that have been closed. If the customer returns, the card may be taken from this file and replaced in the ledger receptacle. In taking a trial balance, or an abstract of his customers' ledger, therefore, the bookkeeper has only live accounts to deal with, and there is less liability to make mistakes.

Second, the cards are easily handled, and once the cabinet has been purchased, the ledger can be extended at a small expense, the cards costing little more than ordinary writing paper. In case statements are desired promptly, a ledger of a thousand customers' accounts could be worked upon at the same time by the entire office force, while with a book ledger but one

person can work on statements at a time. In case of disputes regarding accounts, where it is necessary to produce the books in court, the ledger card or loose sheet containing the account in dispute can be produced without interfering with the work of the accountants at the office.

An objection sometimes urged against the card system is that it is difficult in posting to find the individual cards, and the cards are liable to get misplaced; but if properly indexed, and carefully placed, there is no difficulty from this source. The cards can be found as readily and as surely as the pages of customers' accounts in an ordinary ledger.

Form of Card Ledger



The accompanying cut illustrates the form of a card ledger indexed numerically. If the number of customers is not too large, the alphabetic arrangement is preferable, as it requires no other index. If the business is very extensive, however, it is better to number each customer and divide the ledger into hundreds, then subdivide the hundreds into tens. A small tab at the top of each card is provided for a number, and an index book or a card index is kept for the names corresponding to the numbers.

The card itself does not differ in ruling from the ordinary ledger page. In posting to the ledger card, first enter in the explanation column the dates of the sales slips that make up the customer's statement sheet, then enter the total of the statement in the debit money column. It may require two or three lines of the explanation space to write the dates of the sales slips, but these dates will save a great amount of labor in looking up sales slips from the daily files in case of a disagreement between a customer's account as kept by him and as kept by the bookkeeper. The following cut illustrates a form of ledger card.

Form of Ledger Card

Name George W. Lennon.

Residence 21 Forest Ave.

19				19					
Sept.	1-3-5-7-10-13-16-19-21-23			Oct	4	Cash	112	44	87
	24-26-27-29-30	44	87						
Oct.	4-5-9-14-15-16-19-20								
	22-24-27-28-30-31	55	20						

PRELIMINARY WORK

October 1, 19—

You have this day purchased of Adams & Hackland their entire stock of groceries, in the store situated at #222 Division St., and invoiced at $2993.33, for 75% of the invoiced value, for which you have paid cash. The net value of this stock of merchandise represents your merchandise investment; you also invest $300 in cash.

You have agreed to collect the accounts due Adams & Hackland and allow them 95% of their face value, and become responsible yourself for any losses which may arise from bad debts.

The following customers of Adams & Hackland owe the amounts opposite their names.

Mrs. S. T. Worthen,	26 Laurel St.,	$23.45
A. B. Ryder,	61 Spring St.,	44.28
C. H. Stratton, Elm House,	Central Square,	212.40
Mrs. Wm. Hanson,	28 Summer St.,	31.42
Wm. Harper,	62 East St.,	38.49
Edward Austin,	31 Green St.,	28.74
Mrs. F. Gilford,	44 Brown St.,	21.39
E. L. Corey,	54 Brown St.,	18.96
Mrs. A. Waldron,	82 Chestnut St.,	39.48
P. J. McGuire, Cottage Hotel	52 Ann St.,	169.34
		$627.95

You have agreed to pay Adams & Hackland the amount of 95% of these bills within three months after Oct. 1. You have also agreed to continue the lease of the store #222 Division St. until Jan. 1, at the present rental of $50 per month, and to retain the store clerks, Thos. Stuart and Eugene Canfield, at a salary of $12 per week each, and J. M. Marsh as delivery clerk at $20 per week, he furnishing a horse and a delivery wagon.

Make an entry in the journal, giving yourself credit for the net value of the merchandise; in the cash book credit yourself with $300 invested. In the journal credit Adams & Hackland with 95% of the value of accounts purchased of them (see model journal, page 156); also enter a memorandum of the customers' balances in the journal.

In this series of transactions the card ledger is used, as explained and illustrated on pages 163, 164.

Take from your package of business forms the blank cards for your customers' card ledger, and enter on the debit side, after the name and address of each person have been written, the amount due, under date of Oct. 1, writing *Balance* in the explanation column. Use the alphabetic arrangement for your card ledger, and keep the ledger cards in the original envelope, in front of the blank cards.

TRANSACTIONS

October 1, 19—

Bought of Hackett Bros., City, on account, 60 ds., 2% 10 ds., 10 bbl. N. S. flour at $5; 10 bbl. Redcloud at $4.50; 5 bbl. pastry at $5.50.

Enter your purchases in the purchases journal. (See model, page 159.)

Bought of E. J. Dunn Grocery Co., City, 4 mos., 5% 10 ds., 2 hf. cht. Young Hyson tea, 140 lb., at 32¢; 2 hf. cht. Oolong, 100 lb., at 47¢; 2 hf. cht. Eng. Breakfast, 120 lb., at 30¢; 2 bags Rio coffee, 250 lb., at 10¢; 1 bale Mocha, 150 lb., at 22¢; 2 mats Java, 150 lb., at 21¢.

Bought of the American Sugar Refining Co., New York, on account, 30 ds., 1% 10 ds., 5 bbl., 1565 lb., G. sugar at 5½¢; 2 bbl., 622 lb., C. sugar at 5¢.

Purchased, for cash, of Gray Bros., City, 20 bu. potatoes at 40¢; 5 bbl. apples at $1.50.

Purchased, for cash, of Williams & Andrews, City, 60 doz. fresh eggs at 20¢; 120 doz. case eggs at 15¢. (No entry in cash book at this time.)

The following ten sales slips have been handed in by the salesmen.

No. 1 Mrs. S. T. Worthen, #26 Laurel St., 3 lb. butter at 25¢; 12 eggs, 20¢; 1 pk. apples, 20¢; 1 pk. potatoes, 15¢; 1 gal. K. oil, 12¢; 1 lb. M. & J. coffee, 32¢.

Make out a statement sheet for each person named on the sales slips, and enter the items of each day's sales on the statement sheets, allowing a line for each item. Keep your statement sheets in alphabetical order in your large envelope. In actual practice, the statement sheets would be placed in the ledger account file, and at the end of the day the slips would be placed in an envelope or file and marked with the current date; as, *Oct.* 1, 19—, so that if any dispute arose regarding the sales slips, they could be readily referred to. (See model of statement sheet, page 162; see illustration of ledger account file, page 163.) No entry for a sale is made in the books.

The grocer who keeps his books in the old style enters all his credit sales on a blotter, posts from the blotter to the ledger, and makes out his statements from the ledger at the end of the month. The modern grocer posts the sales slips directly to the customers' monthly statement sheets, and at the end of the month the statements are ready for the customers, as the bookkeeper should do his posting at the end of each day. The footings only of the statement sheets are carried to the customers' ledger.

No. 2 A. B. Ryder, # 61 Spring St., 1 lb. E. B. tea, 60¢; 1 lb. M. & J. coffee, 32¢; 1 pkg. gelatine, 15¢; 2 lb. raisins at 16¢; 10 lb. butter at 23¢; 12 S. F. eggs, 24¢.

No. 3 C. H. Stratton, Elm House, 1 tub butter, 40 lb., at 22¢; 10 doz. case eggs at 18¢; 2 bbl. apples at $1.75; 1 bbl. N. S. flour, $5.50; 4 sacks pastry flour at $1.50.

No. 4 Mrs. Wm. Hanson, #28 Summer St., 2 pkgs. rolled oats at 12½¢; 2 lb. lard at 15¢; 5 doz. case eggs at 18¢; 6 cans tomatoes at 10¢; 6 cans corn at 10¢; 20 lb. G. sugar at 6¢; 2 lb. Rio coffee at 20¢; ½ lb. W. pepper at 40¢.

No. 5 Wm. Harper, #62 East St., 2 lb. butter at 26¢; 1 box boneless codfish, 45¢; 1 can tomatoes, 10¢; 1 bu. potatoes, 60¢; 1 pk. apples, 20¢; 1 lb. Y. H. tea, 50¢.

No. 6 Edward Austin, #31 Green St., 1 bbl. N. S. flour, $5.50; 2 lb. cream cheese at 16¢; 1 lb. Y. H. tea, 50¢; 12 S. F. eggs, 24¢; 5 gal. K. oil at 13¢.

No. 7 Mrs. F. Gilford, #44 Brown St., 12 S. F. eggs, 24¢; 2 lb. butter at 26¢; 1 pk. potatoes, 15¢; 1 head cabbage, 6¢; 2 bunches beets at 5¢; 1 lb. lard, 15¢; 5 cakes laundry soap at 5¢; 5 lb. rice at 10¢; 1 gal. molasses, 60¢.

No. 8 Edward L. Corey, #54 Brown St., 1 broom, 35¢; ½ gal. maple sirup at $1.25; 1 can tomatoes, 10¢; 1 bu. potatoes, 60¢; 1 bbl. apples, $2.

No. 9 Mrs. A. Waldron, #82 Chestnut St., 2 lb. butter at 26¢; 1 lb. cheese, 16¢; 1 sack pastry flour, $1.50; 1 lb. lard, 15¢; 12 S. F. eggs, 26¢; 1 pkg. H. O. pancake, 10¢; 1 qt. maple sirup, 35¢.

No. 10 P. J. McGuire, Cottage Hotel, #52 Ann St., 1 lb. M. & J. coffee, 32¢; 1 washboard, 50¢; 1 lb. raisins, 10¢; 1 bottle bluing, 10¢; 1 broom, 30¢; 1 pkg. rolled oats, 13¢; 12 oranges, 35¢.

The amount of cash sales, as shown by the cash tickets handed in by the salesmen and the customers, is $121.45. Enter this amount in the cash book, on the debit side, with the explanation, *Cash sales, as per tickets.*

Enter the total of each customer's sales slip against the customer's name on an abstract sales sheet, dated *Oct. 1,* and numbered *1*: also enter the total cash sales underneath, and carry these amounts to the proper columns of the abstract sales book. (See models, pages 158 and 159.) File the abstract sales sheets in numeric order in your large envelope.

Paid cash as follows: Books and stationery, $6.25; postage stamps, $1; one month's rent in advance, $50; merchandise purchased of Gray Bros., $15.50; merchandise purchased of Williams & Andrews, $30. Enter in the cash book.

Balance your cash book, entering the difference in red ink on the credit side. Bring down the balance on the left-hand, or debit, side, in the second column, under date of Oct. 8. In this series of transactions the cash book will be balanced at the close of each day's business, in accordance with the custom in actual retail business.

October 8, 19—

Purchased of S. M. Crockett & Co., City, on account, 30 days, 3% 10 ds., 5 doz. tomato ketchup at $1.50; 1 gro. bluing, $7.50; 3 doz. brooms at $2.

Purchased of Gray Bros., for cash, 50 heads cabbage at 4¢; 60 bunches beets at 2¢.

Bought, for cash, from wagons, 20 doz. S. F. eggs at 20¢; 60 lb. cream cheese at 12¢.

The following sales slips have been handed in by the salesmen.

No. 1 Mrs. S. T. Worthen, 10 lb. G. sugar at 6½¢; 1 bottle bluing, 10¢; 2 lb. cheese at 16¢; 1 lb. Y. H. tea, 50¢.

No. 2 Wm. Harper, 1 lb. M. & J. coffee, 32¢; 1 bbl. N. S. flour, $5.75; 2 qt. molasses at 12½¢; 5 cakes laundry soap at 5¢.

No. 3 A. B. Ryder, 10 lb. G. sugar at 6½¢; 1 pkg. R. oats, 12¢; 1 pk. potatoes, 15¢; 5 gal. K. oil at 13¢; 5 lb. lard at 12¢.

No. 4 Mrs. F. Gilford, 10 lb. G. sugar at 6½¢; 1 lb. M. & J. coffee, 32¢; 1½ lb. cheese at 16¢; 1 sack flour, $1.50; 1 can corn, 10¢; 1 can tomatoes, 10¢; 1 broom, 35¢.

No. 5 E. B. Woods, #44 Laurel St., 2 lb. print butter at 30¢; 1 bu. potatoes, 60¢; 1 pk. apples, 20¢; 12 bananas, 20¢; 5 lb. G. sugar at 6½¢; 1 lamp chimney, 10¢; 1 bbl. N. S. flour, $5.75.

No. 6 Edward Austin, 10 lb. tub butter at 24¢; 1 lb. M. & J. coffee, 32¢; 5 lb. lard at 12¢; 1 broom, 35¢; 10 lb. G. sugar at 6½¢; 3 lb. codfish at 15¢.

No. 7 Mrs. A. Waldron, 1 bbl. apples, $2.25; 10 lb. lard at 12¢; 10 lb. sugar at 6½¢; 2 lb. Rio coffee at 20¢; 1 lb. Y. H. tea, 50¢.

No. 8 C. H. Stratton, Elm House, 10 bu. potatoes at 55¢; 1 hf. cht., 50 lb., E. B. tea at 50¢; 1 bale, 125 lb., M. & J. coffee at 30¢; 5 doz. S. F. eggs at 22¢; 1 case corn flakes, 36 pkg., $4.50; 1 bbl. oatmeal, $4.75; 1 bx. prunes, 50 lb., $6.

No. 9 Chas. A. Dodge, #57 Chestnut St., 1 lb. E. B. tea, 60¢; 1 lb. M. & J. coffee, 32¢; 6 lemons, 18¢; 12 S. F. eggs, 24¢; 1 bbl. flour, $5.75; 5 lb. lard at 12¢.

No. 10 P. J. McGuire, Cottage Hotel, 1 gal. vinegar, 25¢; 1 bbl. N. S. flour, $5.75; 5 lb. butter at 24¢; 2 cans C. milk at 15¢; 1 bottle O. oil, 75¢; 1 bunch celery, 15¢; 1 can chicken, 40¢.

Cash sales for the day, per cash tickets, $214.12. (Abstract sales sheet and cash book.)

Do not forget to make proper entries on a daily abstract sales sheet (No. 2), and also in the abstract sales book. Number the abstract sales sheets consecutively.

Received cash from customers as follows: Mrs. F. Gilford, $21.39; P. J. McGuire, $50; Wm. Harper, $18.49; Mrs. Wm. Hanson, $20.

Deposit $550 in City Bank.

In this set you will not be required to use a check book, but will keep an account with the bank on last pages of your Blank No. 1. Head these pages, *Account with City Bank.* Write the date the same as in the cash book; in the first explanation space write *Deposit;* in the second explanation space, *Currency;* in the first money column the amount, $550. When a check is called for in the transactions, write the date, the name of the party to whom the check is given in the first explanation space, for what given in the second explanation space, and carry the amount into the second, or right-hand money column. The difference at any time between the two money columns will show the amount of cash in bank.

Paid cash as follows: (Checks) Hackett Bros., invoice of Oct. 1, less 2% (enter in cash book, purchases journal, and bank account. See model of purchases journal, page 159); E. J. Dunn Grocery Co., invoice of Oct. 1, less 5%. (Currency) Gray Bros., invoice of even date, $3.20; merchandise purchased from market wagons, $11.20; salaries, Stuart, $12; Canfield, $12; Marsh, $20; freight, $3.42.

Balance your cash book, and bring down the amount the same as in double entry.

October 15, 19—

Bought of Park & Tilford, New York, net 2 mos., 3/10, merchandise as per invoice, $287.90.

Bought of S. S. Pierce & Co., Boston, net 2 mos., 2/10, merchandise as per invoice, $468.32.

Purchased of St. Louis Milling Co., St. Louis, net 4 mos., 5/10, merchandise as per invoice, $450.

Purchased of Gray Bros., City, for cash, 50 heads cabbage at 4¢; 1 bu. turnips, 45¢; 80 bbl. apples at $2.

Purchased of Trent Commission Co., City, for cash, 4 tubs C. butter, 200 lb. at 17¢; 10 baskets late peaches at 65¢.

The following sales slips have been handed in by the salesmen.

No. 1 C. H. Stratton, Elm House, 1 pail mackerel, 20 lb., $4.25; 1 tub lard, 60 lb., at 10¢; 1 doz. tomato ketchup, $2.25; 6 doz. S. F. eggs at 22¢; 4 sacks pastry flour at $1.50; 1 bbl. N. S. flour, $5.50.

No. 2 Mrs. S. T. Worthen, 1 bbl. apples, $2.50; 1 bu. potatoes, 60¢; 5 lb. butter at 25¢; 12 S. F. eggs, 24¢; 1 lb. M. & J. coffee, 32¢.

No. 3 Mr. Wm. Harper, 20 lb. G. sugar at 6½¢; 10 lb. lard at 12¢; 3 cans corn at 10¢; 1 lb. E. B. tea, 60¢; 4 lb. raisins at 15¢; 1 broom, 35¢.

No. 4 E. L. Corey, 1 bbl. flour, $5.75; 10 lb. tub butter at 24¢; ½ lb. pepper at 40¢; 1 box sardines, 35¢; 12 pickles, 15¢.

No. 5 P. J. McGuire, Cottage Hotel, 1 case, 36 cans, tomatoes at 8¢; 1 case, 36 cans, corn at 8¢; 1 tub lard, 40 lbs., at 11¢; 1 bbl., 212 lb., sugar at 6¢; 3 doz. lemons at 25¢.

No. 6 E. B. Woods, 1 bbl. apples, $2.50; 1 lb. E. B. tea, 60¢; 1 lb. M. & J. coffee, 32¢; 5 lb. print butter at 30¢; 1 clothesline, 30¢.

No. 7 Chas. A. Dodge, 20 lb. tub butter at 24¢; 1 bu. potatoes, 60¢; 1 sack pastry flour, $1.50; 1 gal. M. sirup, $1.25; 1 jug, 15¢.

No. 8 Mrs. F. Gilford, 1 bu. potatoes, 60¢; 2 pkg. shredded wheat biscuit at 12½¢; 10 lb. tub butter at 24¢; 1 ham, 12 lb., at 12½¢; 12 S. F. eggs, 25¢.

No. 9 Mrs. A. Waldron, 1 bbl. N. S. flour, $5.75; 5 lb. tub butter at 24¢; 1 lb. E. B. tea, 60¢; 1 broom, 35¢; 1 pkg. gelatine, 15¢; 1 pkg. Cream of Wheat, 15¢.

No. 10 Edward Austin, 12 S. F. eggs, 25¢; 1 bbl. apples, $2.25; 1 bu. potatoes, 60¢; 1 can salmon, 24¢; 1 bottle O. oil, 35¢; 1 head lettuce, 5¢.

No. 11 Mrs. Wm. Hanson, 1 bbl. N. S. flour, $5.75; 1 bu. potatoes, 60¢; 20 lb. G. sugar at 6½¢; ¼ cht., 18 lb., Y. H. tea at 45¢.

No. 12 A. B. Ryder, 1 bbl. N. S. flour, $5.75; 1 bu. potatoes, 60¢; 1 bbl. apples, $2.25; 1 bottle ketchup, 22¢; 1 qt. beans, 10¢; 1 lb. pork, 12¢.

Cash sales for the day, per cash tickets, $184.96.

Received cash from customers as follows: Mrs. S. T. Worthen, Sept. account, $23.45; A. B. Ryder, $44.28; Wm. Harper, $20; Edward Austin, $28.74; E. L. Corey, $18.96; Mrs. Wm. Hanson, $11.42.

Received of C. H. Stratton his note at 4 mos., with interest, for $212.40, to balance his account to Oct. 1st. (Enter in journal and notes receivable book.)

Had your note, dated to-day, at 90 days for $100, and indorsed by your teacher, discounted at the City Bank, and received credit for the net proceeds.

Deposited $125.

Paid cash as follows: (Checks) second-hand safe, purchased of Diebold Safe Co., $100; S. M. Crockett & Co., invoice of 8th inst., less 3%; American Sugar Refining Co., invoice of Oct. 1, less 1%; Gray Bros., invoice of even date, $162.45; Trent Commission Co., invoice of even date, $40.50. (Currency) office desk and fixtures, $30; salaries, Stuart, $12; Marsh, $20; Canfield, $12; freight, $57.42.

(Student) drew cash for private use, $50.

Remember to balance your cash book.

October 22, 19—

Purchased of Gray Bros., City, for cash, 10 bbls. apples at $2; 50 bu. potatoes at 45¢; 30 doz. case eggs at 15¢.

Bought for cash, from market wagons, 40 doz. S. F. eggs at 22¢; 50 hd. cabbage at 5¢; 400 lb. squash at 1¢.

Bought of American Sugar Refining Co., 30 ds., 1/10, merchandise as per invoice, $124.72.

Bought of S. S. Pierce & Co., Boston, net 60, 3/10, merchandise as per invoice, $468.75.

Purchased of F. H. Leggett & Co., New York, net 60, 3/10, merchandise as per invoice, $344.70.

The following sales slips have been handed in by the salesmen.

No. 1 A. B. Ryder, 1 pail mackerel, 20 lb., $3.75; 1 sack pastry flour, $1.50; 12 S. F. eggs, 25¢; 1 box cigars, $5.50; 5 lb. coffee at 30¢; 12 oranges, 35¢.

No. 2 Mrs. Wm. Hanson, 1 bx., 5 lb., codfish at 12¢; 1 ham, 18 lb., at 12½¢; 1 case C. corn, 36 cans, at 8¢; 1 case C. tomatoes, 36 cans, at 8¢; 4 sacks pastry flour at $1.50; 2 brooms at 30¢.

No. 3 Edward Austin, 1 ham, 12 lb., at 12½¢; 12 eggs, 25¢; 10 lb. G. sugar at 6½¢; 2 lb. coffee at 32¢; 1 sack pastry flour, $1.50; 1 bottle bluing, 10¢; 1 can chicken, 40¢.

No. 4 Mrs. A. Waldron, 1 can chicken, 40¢; 1 bunch celery, 15¢; 1 bottle O. oil, 75¢; 1 5-lb. can coffee, $1.50; 1 lamp, 50¢; 5 gal. K. oil at 13¢; 1 clothesline, 30¢.

No. 5 Mrs. F. Gilford, 1 bbl. N. S. flour, $5.75; 1 can tongue, 75¢; 5 bars laundry soap at 5¢; 1 bottle ketchup, 22¢; 10 lb. G. sugar at 6½¢.

No. 6 Chas. A. Dodge, 5 lb. lard at 12¢; 1 ham, 15 lb., at 12½¢; 5 gal. K. oil at 13¢; 1 box cigars, $2.50; 1 broom, 35¢; 12 eggs, 25¢; 12 bananas, 25¢.

No. 7 Mrs. S. T. Worthen, 1 cake Sapolio, 10¢; 2 lb. coffee at 32¢; 5 lb. lard at 12¢; 1 bbl. N. S. flour, $5.75; 12 bananas, 25¢.

No. 8 C. H. Stratton, Elm House, 500 cigars at $35 per M.; 200 cigars at $55 per M.; 1 ham, 26 lb., at 12¢; 1 bbl. N. S. flour, $5.50; 6 doz. S. F. eggs at 22¢; 20 doz. case eggs at 16¢; 1 tub butter, 52 lb., at 22¢; 1 bbl. G. sugar, 216 lb., at 6¢; ½ cht. Y. H. tea, 60 lb., at 40¢.

No. 9 Wm. Harper, 1 sack pastry flour, $1.50; 10 lb. tub butter at 24¢; 2 lb. cheese at 16¢; 5 gal. K. oil at 13¢; 1 bbl. apples, $2.50; 12 oranges, 35¢.

No. 10 E. L. Corey, 1 ham, 16 lb., at 12½¢; 20 lb. G. sugar at 6½¢; 1 lamp, 40¢; 1 5-lb. can coffee, $1.50; 3 gal. K. oil at 15¢.

No. 11 P. J. McGuire, Cottage Hotel, 200 cigars at $35 per M.; 1 bbl. N. S. flour, $5.50; 1 doz. T. ketchup, $2; 1 tub butter, 50 lb., at 22¢; ½ cht. Y. H. tea, 60 lb., at 40¢; 5 gal. K. oil at 13¢; 1 lb. baking powder, 50¢.

No. 12 E. B. Woods, 1 sack pastry flour, $1.50; 2 lb. Rio coffee at 20¢; 5 lb. lard at 12¢; 1 lb. chocolate, 30¢; 1 can tongue, 75¢; 1 bottle Worcestershire, 40¢; 1 pail mackerel, 10 lb., $2.25.

Cash sales for the day, per cash tickets, $242.36.

Received cash from customers as follows: P. J. McGuire, $50; Mrs. A. Waldron, $20.

Had your note at 4 mos. for $500 discounted at the City Bank, and received credit for the net proceeds.

Deposited $225.

Paid cash as follows: (Checks) Park & Tilford, invoice of 15th inst., $287.90, less 3%; St. Louis Milling Co., invoice of 15th, $450, less 5%. (Currency) Gray Bros., $47; goods from market wagons, $15.30; freight and cartage, $11.32; salaries, Canfield, $12; Stuart, $12; Marsh, $20.

October 29, 19—

Is your cash book balanced?

Purchased of Williams & Andrews, City, for cash, 2 bx. oranges at $3.50; 2 bx. lemons at $3; 4 tubs Cr. butter, 240 lb., at 19¢; 5 bx. cheese, 252 lb., at 11¢.

Purchased of Cobb, Bates & Yerxa, Boston, subject to sight draft in 10 days, merchandise as per invoice, $262.74.

Bought of Park & Tilford, New York, net 60, 2/10, merchandise as per invoice, $68.74.

Bought of F. H. Leggett & Co., New York, net 4 mos., 3/10, merchandise as per invoice, $168.94.

Purchased of S. S. Pierce & Co., Boston, net 60, 3/10, merchandise as per invoice, $88.45.

Purchased, for cash, country produce amounting to $16.42.

The following sales slips have been handed in by the salesmen.

No. 1 E. B. Woods, 20 lb. tub butter at 22¢; 15 lb. G. sugar at 6½¢; 5 gal. K. oil at 13¢; ⅛ cht. Y. H. tea, 15 lb., at 40¢; 1 lb. baking powder, 50¢.

No. 2 P. J. McGuire, Cottage Hotel, 2 hams, 47 lb., at 12¢; 1 bbl. oatmeal, $4.75; 1 case Cr. of Wheat, 36 pkg., at 12½¢; 6 brooms at 25¢; 6 doz. oranges at 25¢; 3 doz. lemons at 20¢.

No. 3 E. L. Corey, 1 gal. maple sirup, $1.25; 5 bu. potatoes at 60¢; 1 broom, 35¢; 1 can ox tongue, 75¢; 1 bx. mustard, 15¢.

No. 4 Wm. Harper, 1 ham, 18 lb., at 12½¢; 3 cans peaches, 50¢; 5 lb. coffee at 30¢; 10 lb. G. sugar at 6½¢; 1 bx. gelatine, 15¢; 12 oranges, 35¢.

No. 5 C. H. Stratton, Elm House, 1 tub lard, 54 lb., at 10¢; 20 lb. print butter at 23¢; 10 doz. S. F. eggs at 24¢; 1 case wheatena, 36 pkg., at 12½¢; 12 bx. sardines at 25¢; 1 bx. lemons, $4.50; 1 bbl. pastry flour, $6; 1 ham, 24 lb., at 12¢; ⅛ cht. E. B. tea, 15 lb., at 50¢.

No. 6 Mrs. S. T. Worthen, 20 lb. G. sugar at 6½¢; 5 lb. Y. H. tea at 45¢; 1 can ox tongue, 75¢; 6 lemons, 15¢; 5 gal. K. oil at 13¢.

No. 7 A. B. Ryder, ⅛ cht. E. B. tea, 15 lb., at 50¢; 1 bu. potatoes, 60¢; 12 S. F. eggs, 26¢; 1 lamp chimney, 10¢; 1 can tomatoes, 10¢; 1 ham, 14 lb., at 12½¢.

No. 8 Mrs. Wm. Hanson, 1 bbl. N. S. flour, $5.75; 25 lb. oatmeal at 5¢; 1 pail mackerel, 10 lb., $2.25; 1 bbl. apples, $2.50; 20 lb. G. sugar at 6½¢; 5 gal. K. oil at 13¢.

No. 9 Edward Austin, 12 S. F. eggs, 26¢; 5 lb. E. B. tea at 50¢; 10 lb. tub butter at 22¢; 1 bx. mustard, 15¢; 2 cans corn at 10¢.

No. 10 Mrs. A. Waldron, 3 lb. print butter at 26¢; 1 sack pastry flour, $1.50; 1 ham, 12 lb., at 12½¢; 10 lb. G. sugar at 6½¢; 1 gal. molasses, 40¢; 1 lb. baking powder, 50¢.

No. 11 Mrs. F. Gilford, 5 gal. K. oil at 13¢; 1 bbl. apples, $2.75; 5 lb. coffee at 30¢; 1 lamp, 35¢; 1 broom, 30¢; ¼ gr. matches, 25¢.

No. 12 Chas. A. Dodge, 12 S. F. eggs, 26¢; 1 lb. coffee, 32¢; 1 bbl. apples, $2.50; 1 wash tub, $1.10; 1 lb. chocolate, 30¢.

Cash sales for the day, per cash tickets, $216.48.

Received cash as follows: P. J. McGuire, $50; Mrs. A. Waldron, $10.

Deposited $150.

Paid cash as follows: (Checks) Williams & Andrews, invoice of even date, $86.32; 5 tons coal, $25. (Currency) salaries, Canfield, $12; Stuart, $12; Marsh, $20; country produce, $16.42; freight, $4.88.

Gave S. S. Pierce & Co., Boston, your note at 20 days, dated Oct. 25th, with interest, for amount of invoice of Oct. 15th, less 2%.

Posting. — You will now post your books. Remember that in single-entry you post only such transactions as affect personal accounts, and that only personal accounts appear in either the general ledger or the card ledger.

The card ledger debits will be taken entirely from the statement sheets. Remove these statements from the file, and post only the totals to the corresponding cards of the card ledger, placing the date of each sale in the explanation space. (See model ledger card, page 164.) Remember to keep your card ledger in alphabetical order.

The card ledger credits will be found on the debit side of the cash book and in the journal. Turn to your cash book and post all cash entries which affect the accounts of persons whose names appear in the card ledger. (See form, page 164.) Place a check mark against each name in the cash book. Turn to your journal and post any items which may affect customers' accounts, placing a check mark against each item to indicate posting.

Your own account and the accounts with those business concerns of whom you purchase goods will be kept in the general ledger, and the postings to these accounts will be made from the journal, purchases journal, and the cash book. Open these accounts in your general ledger (Blank No. 2). Allow one third of a page to each account, beginning on page 3 of the blank. Use the first page of the blank for an alphabetical index to your general ledger. Index an account immediately after it is opened.

Post from purchases journal the amount of each invoice of goods bought on account, to the credit of the account named; then post from the journal and the cash book such items as should be carried to these accounts. Place a check mark against each cash item. See explanation of cash book, page 162.

Foot and rule the purchases journal and the abstract sales book.

Having completed your posting, prove the same (see Proof of Posting, page 155).

STATEMENT OF RESOURCES AND LIABILITIES
HENRY T. BROWN, OCTOBER 31, 19—

RESOURCES				
Cash, balance on hand			253 72	
Merchandise, per inventory			3491 18	
Furniture and fixtures			250	
Notes receivable, per notes receivable book			197 25	
Accounts receivable, per card ledger			773 67	
Total resources				4965 82
LIABILITIES				
Notes payable, per notes payable book			985 95	
Accounts payable, per general ledger			1805 38	
Total liabilities				2791 33
Present Worth				*2174 49*

SCHEDULE OF ACCOUNTS RECEIVABLE
OCTOBER 31, 19—

Mrs. S. T. Wood	25.10	
H. B. Runyon	36.25	
John Stratton	114.87	
Mrs. Wm. Howard	175.23	
Wm. Harper	212.15	
Chas. Kennedy	25.20	
Edward L. Corlis	13.10	
Mrs. A. Wallace	45.12	
P. J. McGuire	26.30	
Mrs. Fred Young	52.10	
E. B. Woodruff	29.75	
Charles Doyle	18.50	
Total		773.67

SCHEDULE OF ACCOUNTS PAYABLE
OCTOBER 31, 19—

Adams & Hackland	482.35	
American Sugar Refining Co.	216.20	
Park & Tilford	75.68	
J. J. Powers Co.	517.22	
F. H. Leggett & Co.	351.46	
Cobb, Bates & Young	162.47	
Total		1805.38

Make an abstract of your card ledger on a sheet of paper, showing the amount due from each customer, and total amount due.

From your notes receivable book find the amount of the notes receivable in your possession, and from your cash book find the amount of cash on hand and in bank.

From your general ledger find the amount due your creditors, and from your notes payable book the amount of notes you have outstanding. Balance your bank account.

Your inventory shows the following:

Merchandise on hand, valued at $4400.63,
Furniture and fixtures, " " 125.

From this data prepare a statement of resources and liabilities, using the above model. Find the net gain or the net loss according to the form for proprietor's statement on page 173.

PROPRIETOR'S STATEMENT

OCTOBER 31, 19—

	Henry T. Brown,	invested	2500			
	"	withdrew	250			
	"	net investment			2250	
	"	present worth			2174	49
	Net Loss				*75*	*51*

Carry the net loss shown in your proprietor's statement to the debit side of the proprietor's account in the ledger, and close the account in the same way as in double entry, bringing the balance down under the date *Nov. 1.*

CONTROLLING ACCOUNTS AND SUBSIDIARY LEDGERS

The student will remember that in the elementary work the Journal was first used as a book in which all transactions were recorded, and that later on in the work, special journals were introduced, in which transactions of certain classes were recorded; *i.e.*, cash, sales, and purchase journals.

Similarly the Ledger has been used up to this time for all accounts, but whenever accounts of one class become sufficiently numerous the ledger may be subdivided in the same manner as the journal. This is accomplished by removing the accounts of a certain class from the general ledger and placing them in a separate or subsidiary ledger.

This of course will upset the balance of the general ledger, and in order to restore this equality of debits and credits an account is opened with the subsidiary ledger.

This account in the general ledger, which serves as a substitute for the accounts in the subsidiary ledger, is called a Controlling account.

The balance of this account must at all times be kept in agreement with the sum of all the balances of the accounts in the subsidiary ledger.

All debits and credits which are posted to the subsidiary ledger daily are posted to the controlling account in aggregate at the end of the month. Each debit or credit to the subsidiary ledger accounts must be posted twice, once to the individual account in the subsidiary ledger and once to the controlling account in the general ledger. To save labor in posting, special columns are provided so that the postings to the controlling account are made in the total only, at the end of the month.

The bookkeeper is thus able to take a trial balance from the general ledger independently of the subsidiary ledger.

Your card ledger in this set is a subsidiary ledger and the controlling account is Accounts Receivable. The accounts of trade creditors will also be taken out of the general ledger and will be operated in a separate book called the purchases ledger. The creditors' controlling account in the general ledger will be called Accounts Payable.

The following short exercise will serve to illustrate the principles of controlling accounts.

Short exercise illustrating controlling accounts:

October 1 Wm. P. Daniels begins business, investing cash $2000, merchandise $2500, store building $4000, office equipment $500.

2 Sell Wm. Howard on account mdse. $154.

3 Sell C. T. Young on account mdse. $106.40.
4 Purchased of Stratton & Walsh mdse. on account $250.
5 Purchased of Bruce & Co. mdse. on account $400.
6 Sell J. T. Powers mdse. on account $258.
7 Sell G. F. Kennedy mdse. on account $365.45.
8 Sell H. M. Adams mdse. on account $112.50.
9 Sell J. D. White mdse. on account $116.95.
10 Pay salaries to date $250.
11 Pay electric light bill $10.50.
12 Received cash from Wm. Howard in full $154.
13 Purchased of Scott & Co. mdse. on account $150.
14 Pay Bruce & Co. cash on account $200.
15 Receive of G. F. Kennedy cash on account $200.
16 Receive of H. M. Adams cash on account $50.

In recording the above transactions use a general ledger, sales ledger, and purchases ledger. Allow six accounts to the page in the ledgers. This exercise is not to be written in the grocery blanks, but on loose ledger and journal sheets.

RETAIL GROCERY BUSINESS — Continued

PRELIMINARY WORK — ADMISSION OF PARTNER AND CHANGE TO DOUBLE ENTRY

NOVEMBER 1, 19—

THE business of the past month has shown a small loss, but as the sales are increasing, you have decided to continue the business and take a partner, J. M. Marsh, your present delivery clerk, and also to install a department of meat, fish, and poultry in addition to your grocery business.

You have decided to keep the books by double entry and to put them into double entry form before forming the partnership.

Changing from Single Entry to Double Entry. — To change a set of books from single entry to double entry it is only necessary to open such new accounts in the ledger as shall cause it to exhibit all the resources and liabilities of the business as are shown by the statement of resources and liabilities.

NOVEMBER 1, 19—

	Cash	per cash book	315	26		
	Purchases	per inventory	4837	63		
	Furniture and Fixtures	valued at	275			
	Notes Receivable	per notes receivable book	182	31		
	Accounts Receivable	per card ledger	489	25		
	Notes Payable	per notes payable book			1085	75
√	Accounts Payable	per general ledger			2965	87
√	John D. Bruce	present worth			2047	83
	This entry made to change books	from single entry to double entry				

From your statement of resources and liabilities of October 31 make an entry in the journal, similar to an opening entry, according to the model on page 174.

In posting the opening entry check but do not post the personal accounts payable and the proprietor's account, as these items are already in the general ledger. All other accounts in the opening entry should be posted.

Allow one third of a page for each account.

The debits and credits should now be equal, and to prove this you should take a trial balance. You are now ready to proceed with double entry. The journal and cash book are to be kept as in earlier work in double entry. In order to ascertain the amount of the total purchases and sales for each month, the footing of the Amount of Invoice column of the purchases journal should be posted to the debit of Purchases at the end of the month, as it shows all purchases of merchandise; and the footing of the Monthly Sales column of the abstract sales book should be posted to the credit of Sales, as it shows all the sales of merchandise.

By agreement with J. M. Marsh, your partner, the new firm takes over all the resources and assumes all the liabilities of your present business, and Marsh invests property of equal value as described on the following page.

Articles of copartnership have been drawn up by your attorney and executed by you and your partner, showing the investment of each partner, and containing the following conditions:

You (Student) shall act as bookkeeper and cashier, and shall have general charge of the inside management of the store; shall receive all cash, sign all notes, checks, and other negotiable instruments of the firm, and attend to the purchase of all groceries.

J. M. Marsh shall have charge of the delivery of goods, the taking of orders, with such assistance as may be necessary, and shall attend to the buying of all country produce and provisions.

Each partner shall give his entire time to the business, and shall be entitled to draw, for living expenses, cash not to exceed $100 per month, or its equivalent in goods from the store at cost.

The profits and losses of the business shall be divided equally at the end of each year, or at such period as the books may be closed.

A bill of sale has been drawn up by your attorney and executed by you, disposing of your entire resources to the firm of (Student) & Marsh, subject to the payment of your liabilities as shown by your statement of October 31. This bill of sale represents your investment in the new firm.

The firm of (Student) & Marsh will continue to use the same set of books as were previously used in the business, and the ledger already contains the accounts representing your investment.

You should now make the proper entries for the investment of J. M. Marsh, which the firm receives from him as follows:

Note in his favor, dated Sept. 4, at four months from date, signed by Edward W. Lawrence, indorsed by E. W. Lynch. Face of note, $942.68; discount for unexpired time, $10.06.

Note in his favor, dated Sept. 19, at four months, with interest, signed by George M. Kelly, indorsed by Wm. H. Kelly & Co. Face of note, $622.85; interest due on note to date, $4.46.

Horse, wagon, and harness, now used for delivering goods, valued at $250.

Cash $578.37, which is the balance necessary to make his investment equal your own present worth, as shown by your statement of October 31.

Following are model forms for the necessary journal and cash book entries.

				1				
		John D. Bruce and Arthur Lyman have this day formed a partnership under the firm name of Bruce & Lyman, to take over and continue the business heretofore conducted by said John D. Bruce. The investment of Bruce is represented by the resources of his former business which he has transferred to the firm, less his liabilities which are assumed by the firm, as shown by above entry. The investment of Lyman is represented by the following entry:					
		Notes Receivable	per notes receivable book		500			
		Interest	on above		3	75		
		Horses and Wagons	valued at		225			
	√	Cash	per cash book		1321	58		
		Discount	on notes receivable				2	50
		Arthur Lyman	net investment				2047	83

CASH

19—								
Nov.	1	√	Arthur Lyman	invested	1321	58		

You are now ready to proceed with the second month's work in the retail grocery business. You should at this point transfer the accounts of creditors from the general ledger to the purchases ledger. This may be done by entering the balance of each creditor's account on the smaller side of such account, together with the date, Nov. 1, and the explanation in the wide column, " Purchases ledger, page —," adding the page of that ledger to which the balance is transferred. The explanation in the purchases ledger should be, " General ledger, page —," adding the page of the general ledger from which the balance has been transferred.

The following Expense accounts will be used in this set: Salaries, Office Supplies, Stable Expense, Insurance, General Expense. A Freight-In account will also be kept.

TRANSACTIONS

NOVEMBER 1, 19—

Engaged Geo. Carter as meat cutter, at $15 per week, and Willis Holt as driver and order clerk, at $15 per week.

Purchased of Armour & Co., Chicago, 30 ds., 2/10, dressed meat, as per invoice, $132.21.

Purchased of Swift & Co., Chicago, 30 ds., 2/10, beef, mutton, and lard, as per invoice, $142.38.

Bought of Gray Bros., City, for cash, 5 tubs butter, 212½ lb., at 20¢; 2 bx. cheese, 104 lb., at 11¢.

Bought of E. J. Dunn Grocery Co., City, 4 mos., 5/10, 2 hf. cht. Japan tea, 120 lb., at 25¢; 2 hf. cht. E. B. tea, 120 lb., at 32¢; 2 bales Mocha coffee, 300 lb., at 25 ¢; 2 mats Java coffee, 150 lb., at 26¢; 1 pail cinnamon, 25 lb., at 25¢.

Purchased of M. S. Newton & Sons, Boston, 30 ds., 2/10, fish, as per invoice, $18.39.

Bought country produce from market wagons, for cash, $18.44.

The following sales slips have been handed in by the salesmen.

No. 1 Chas. A. Dodge, 8 lb. rib roast at 16¢; 20 lb. G. sugar at 6½¢; 12 lemons, 25¢; 1 bl. Graham flour, $5.25; 1 bx. macaroni, 35¢; 1 bottle Worcestershire, 40¢.

No. 2 Thomas B. Tucker, Tucker's Tavern, 10 lb. porterhouse at 22¢; 6 lb. lamb chops at 16¢; 22 lb. ham at 12¢; 6 doz. S. F. eggs at 25¢; 12 lb. fish at 10¢; 5 bu. potatoes at 60¢; 1 case wheatena, 36 pkg., at 12¢.

No. 3 Mrs. Fred Gilford, 7 lb. pork roast at 12¢; 20 lb. tub butter at 24¢; 1 sack Graham flour, $1.25; ½ lb. cinnamon at 50¢; ½ bu. beans at $3; 1 bottle T. ketchup, 22¢.

No. 4 E. B. Woods, 12 lb. turkey at 18¢; 1 qt. oysters, 40¢; 1 can Java coffee, 10 lb., at 30¢; 1 gal. molasses, 50¢; 1 lb. cocoa, 55¢; 3 doz. S. F. eggs at 28¢.

No. 5 Mrs. Wm. Hanson, 1 tub butter, 42 lb., at 22¢; 4 doz. S. F. eggs at 28¢; 8 lb. pork roast at 15¢; 10 lb. beef roast at 16¢; 5 lb. round steak at 14¢; 5 lb. Java coffee at 30¢; 1 case C. peas, 36 cans, at 12¢.

No. 6 Wm. Harper, 7 lb. lamb at 16¢; 5 bu. potatoes at 60¢; 1 sack Graham flour, $1.25; 1 gal. maple sirup, $1.25; 5 lb. print butter at 28¢; 1 bottle capers, 30¢.

No. 7 E. L. Corey, 8 lb. corned beef at 12¢; 20 lb. tub butter at 24¢; 1 sack pastry flour, $1.50; 1 bx., 12 lb., prunes, at 12¢; 1 lb. baking powder, 50¢; 1 hd. cabbage, 10¢.

No. 8 James B. Longley, Star Restaurant, 10 lb. sirloin steak at 18¢; 12 lb. porterhouse steak at 20¢; 1 ham, 24 lb., at 12¢; 6 doz. S. F. eggs at 25¢; 1 doz. T. ketchup, $2.25; 1 doz. Crown olives, $3; 18 lb. turkey at 16¢.

No. 9 A. B. Ryder, 6 lb. veal roast at 18¢; 1 qt. oysters, 40¢; 3 bu. potatoes at 60¢; 20 lb. G. sugar at 6½¢; 1 sack buckwheat flour, $1; 1 gal. maple sirup, $1.25; 1 lb. baking powder, 50¢.

No. 10 C. H. Stratton, 20 lb. sirloin steak at 15¢; 12 lb. porterhouse at 18¢; 22 lb. sirloin roast at 15¢; 10 lb. pork roast at 12¢; 39 lb. turkey at 15¢; 1 bbl. N. S. flour, $5.50; 1 bbl. Graham flour, $4.75; 5 gal. maple sirup at $1.15; 1 sack buckwheat flour, $1; 1 hf. cht. Japan tea, 60 lb., at 35¢.

No. 11 Mrs. S. T. Worthen, 1 pr. chickens, 9 lb., at 16¢; 1 bu. potatoes, 60¢; 24-lb. tub butter at 25¢; 1 lb. baking powder, 50¢.

No. 12 P. J. McGuire, 10 lb. sirloin at 16¢; 5 doz. S. F. eggs at 28¢; 200 cigars at $35 per M.; 100 cigars at $55 per M.; 15 lb. chicken at 15¢; 6 lb. ox tongue at 20¢.

Enter the sales on customers' monthly statement sheets exactly as in October.

Cash sales for the day, per cash tickets, $321.45.

Your cash book is now a special column double entry cash book, and you must always give the name of each account affected by any transaction, the same as in cash books which you used in previous double entry work. Where cash sales or purchases are made, place a check mark in the ledger folio column of the cash book opposite Sales and Purchases, as these amounts are posted to the Purchases and Sales accounts from the purchases journal, and from the abstract sales book, and not from the cash book. (See model form of cash book, pages 160 and 161.)

Received cash as follows: Mrs. F. Gilford, payment of October account, $24.25; E. B. Woods, on account, $25; Mrs. A. Waldron, balance of September account, $9.48.

Deposited $800.

Paid cash as follows: (Checks) Adams & Hackland, on account, $100; American Sugar Refining Co., invoice of Oct. 22, less 1%; F. H. Leggett & Co., invoice of Oct. 22, less 3%; Gray Bros., City, invoice of even date, $53.94; Daniel Stoneglass, rent for November, $50. (Currency) merchandise from the National Market Co., $18.44; stamps and postals, $2.50; replacing broken window, $4.75; freight, $2.17; salaries, Canfield, $6; Stuart, $6.

(Student) drew for private use, cash, $25. Marsh drew for private use, cash, $20.

Gave S. S. Pierce & Co. note at 30 ds., with interest, to pay invoice of Oct. 22, less 3%.

NOVEMBER 8, 19—

Purchased of Hackett Bros., City, 60 ds., 2/10, 10 bbl. K. oil, 642 gal., at 9½¢; 1 hhd. Golden Drip sirup, 96 gal., at 37½¢; 2 bbl. salt pork at $6.25.

Bought of S. M. Crockett & Co., 60 ds., 3/10, 5 gross bluing at $7.25; 1 gross T. ketchup, 144 bottles, at 11¢; 36 one-gallon cans M. sirup at 95¢.

Bought of Gray Bros., City, net 30, 2/10, 5 cases eggs, 60 doz., at 15¢; 130 lb. turkey at 13¢; 65 lb. chicken at 12¢.

Bought produce of the National Market Co., for cash, $28.65.

Purchased of American Sugar Refining Co., New York, net 30, 1/10, invoice amounting to $69.98.

Bought of Armour & Co., Chicago, net 30, 2/10, invoice of pork and sausage, $98.37.

Bought of Swift & Co., Chicago, net 30, 1/10, invoice of beef and mutton, $102.40.

Purchased of M. Newton & Sons, Boston, net 30, 1/10, invoice of fish and oysters, $19.69.

The following sales slips have been handed in by the salesmen.

No. 1 E. L. Corey, 6 lb. chicken at 15¢; ½ bbl. Graham flour at $5.50; 1 gal. maple sirup, $1.25; ¼ bu. beans, 80¢; 5 gal. K. oil at 13¢; 12 lb. G. sugar at 6½¢; 1 gal. pickles, 50¢.

No. 2 Wm. Harper, 10½ lb. chicken at 16¢; 1 bbl. pastry flour, $6; 2 doz. case eggs, at 22¢; 12 oranges, 35¢; 1 bottle extract vanilla, 40¢; 2 pkg. shredded wheat, 25¢; 1 broom, 35¢.

No. 3 Mrs. Wm. Hanson, 6 lb. pork chops at 12¢; 8 lb. round steak at 14¢; 12 lb. sirloin roast at 15¢; 11½ lb. pork roast at 12¢; 1 bbl. pastry flour, $6; 3 doz. bananas at 20¢; 1 gal. vinegar, 25¢.

No. 4 Mrs. S. T. Worthen, 8 lb. sirloin roast at 20¢; ½ bbl. G. flour, $2.75; 12 S. F. eggs, 28¢; 2 lb. cheese at 16¢; 1 5-lb. can Java coffee, $1.50; 12 lemons, 25¢.

No. 5 Edward Austin, 2 lb. round steak at 16¢; 8 lb. corned beef at 12¢; 1 hd. cabbage, 10¢; 1 bu. potatoes, 60¢; ⅛ cht. E. B. tea, 15 lb., at 55¢; 1 bottle T. ketchup, 24¢; 12 eggs, 28¢.

No. 6 Mrs. A. Waldron, 8 lb. lamb roast at 16¢; 20 lb. G. sugar at 6½¢; 5 lb. tub butter at 25¢; 1 bbl. Graham flour, $5.25; 1 gal. pickles, 50¢; 2 pkg. shredded wheat, 25¢.

No. 7 Chas. A. Dodge, 9 lb. turkey at 16¢; 2 qt. cranberries at 10¢; 1 bu. potatoes, 60¢; 12 case eggs, 22¢; 1 box cigars, $5.50; 1 gal. vinegar, 25¢.

No. 8 James B. Longley, 1 sack buckwheat flour, $1.50; 1 gal. M. sirup, $1.25; 5 gal. S. pickles at 40¢; 1 bbl. K. oil, 42 gal., at 11¢; 20 lb. chicken at 14¢; 28 lb. rib roast at 14¢; 16 lb. pork roast at 11¢; 15 lb. sir. roast at 15¢; 17 lb. porterhouse at 18¢.

No. 9 Mrs. F. Gilford, 9½ lb. turkey at 16¢; 1 qt. oysters, 40¢; 20 lb. G. sugar at 6½¢; 1 bu. potatoes, 60¢; 1 lb. baking powder, 50¢; 12 oranges, 35¢.

No. 10 P. J. McGuire, 10 lb. sirloin roast at 16¢; 20 lb. rib roast at 14¢; 10 lb. pork roast at 12¢; 16 lb. turkey at 16¢; 1 bbl. N. S. flour, $5.50; 1 bbl. pastry flour, $5.75; 1 doz. T. ketchup, $2; 6 doz. oranges at 25¢.

No. 11 E. B. Woods, 11¼ lb. sirloin roast at 16¢; 5 bu. E. R. potatoes at 55¢; 1 bbl. apples, $2.75; 10 lb. lard at 12½¢; 20 lb. G. sugar at 6½¢; 1 bottle bluing, 10¢; ½ bbl. G. flour at $5.50.

No. 12 Thomas B. Tucker, 12 doz. S. F. eggs at 26¢; 15 lb. sirloin steak at 16¢; 1 bbl. N. S. flour, $5.50; 1 bbl. pastry flour, $5.75; 1 bbl. oatmeal, $5.25; 1 sack buckwheat, $1.50; 5 gal. M. sirup at $1.15.

No. 13 C. H. Stratton, 22 lb. porterhouse at 18¢; 31 lb. beef, sirloin, at 15¢; 26 lb. lamb at 15¢; 12 lb. pork chops at 10¢; 10 bu. potatoes at 55¢; 1 mat Java coffee, 75 lb., at 28¢; 48 lb. butter at 25¢; 30 doz. case eggs at 18¢.

Cash sales for the day, per cash tickets, $388.74.

Received cash as follows: A. B. Ryder, October account, $38.30; Mrs. S. T. Worthen, on account, $15; P. J. McGuire, balance of September account, $19.34; T. B. Tucker, on account, $30.

Had the note of E. W. Lawrence discounted at the City Bank, and received credit for the net proceeds. Face of note, $942.68; discount, $8.96.

Deposited $300.

Paid cash as follows: (Checks) Cobb, Bates & Yerxa, draft at sight for invoice of Oct. 29; Park & Tilford, invoice of Oct. 29, less 2%; F. H. Leggett & Co., invoice of Oct. 29, less 3%; Armour & Co., invoice of Nov. 1, less 2%; Swift & Co., invoice of Nov. 1, less 2%; M. S. Newton & Sons, invoice of Nov. 1, less 2%; bay horse, $125; delivery wagon, $100. (Currency) merchandise from National Market Co., $28.65; cleaning windows, $1.25; board of horse, $5; harness, $31; freight, $1.96; salaries, Canfield, $12; Stuart, $12; Carter, $15; Holt, $15.

Received of C. H. Stratton his note at 60 ds., with interest added, to settle October account. Amount of account, $266.09; interest, 60 ds., $2.66.

Returned to E. J. Dunn Grocery Co., 1 bale Mocha coffee, 150 lb., at 25¢. Too much of this kind was ordered.

NOVEMBER 15, 19—

Purchased of Armour & Co., Chicago, net 30, 2/10, invoice amounting to $116.20.

Purchased of Swift & Co., Chicago, net 60, 3/10, invoice amounting to $178.95.

Bought of M. S. Newton & Sons, Boston, net 30, 1/10, invoice amounting to $28.44.

Bought of S. S. Pierce & Co., Boston, 60 ds., 3/10, invoice amounting to $246.39.

Purchased of Park & Tilford, New York, net 30, 2/10, invoice amounting to $63.44.

Bought of Cobb, Bates & Yerxa, Boston, acceptance 30 ds. from date, invoice, $213.42.

Bought merchandise from National Market Co., for cash, $63.42.

The following sales slips have been handed in by the salesmen.

No. 1 C. H. Stratton, 1 bbl. G. sugar, 217 lb., at 6¢; 1 bbl. N. S. flour, $5.50; 1 bbl. pastry flour, $5.75; 1 bx. oranges, $4.75; 20 doz. S. F. eggs at 25¢; 20 lb. fresh fish at 11¢; 12 lb. sirloin steak at 15¢; 22 lb. sirloin roast at 15¢; 500 cigars at $35 per M.; 200 cigars at $55 per M.

No. 2 A. B. Ryder, 8 lb. beef roast at 16¢; 12 S. F. eggs, 28¢; ½ bbl. G. flour at $5.50; 10 lb. lard at 12½¢; ¼ bu. beans at $3.20.

No. 3 Wm. Harper, 1 qr. lamb, 16 lb., at 15¢; 10 lb. lard at 12½¢; 6 lemons, 15¢; 12 S. F. eggs, 25¢; 2 lb. cheese at 16¢; 1 sack buckwheat flour, $1.25.

No. 4 Mrs. Wm. Hanson, 5 lb. lamb chops at 16¢; 18 lb. ham at 11¢; 8 lb. round steak at 14¢; 1 case C. tomatoes, 36 cans, at 8¢; 1 case C. corn, 36 cans, at 8¢; 1 bbl. G. flour, $5.25; 1 lb. pepper, 65¢; 1 lb. ginger, 60¢.

No. 5 Edward Austin, 2 lb. halibut at 20¢; 6 lb. sir. roast at 16¢; 20 lb. G. sugar at 6½¢; 12 S. F. eggs, 28¢; 1 bbl. apples, $2.75; 1 bottle T. ketchup, 24¢; 1 lamp, 40¢.

No. 6 Thomas B. Tucker, 1 tub butter, 42½ lb., at 22¢; 1 cheese, 28½ lb., at 12½¢; 1 case C. tomatoes, 36 cans, at 8¢; 1 case C. corn, 36 cans, at 8¢; 1 case C. peas, 36 cans, at 12½¢; 22½ lb. fresh fish at 12¢; 26½ lb. chicken at 14¢; 18 lb. sirloin steak at 15¢; 24 lb. sirloin roast at 15¢.

No. 7 J. B. Longley, 1 bbl. N. S. flour, $5.75; 1 bbl. pastry flour, $6; 32½ lb. turkey at 15¢; 21 lb. lobster at 16¢; 5 gal. oysters at $1.20; 15 lb. codfish at 12½¢; 1 bbl. G. sugar, 231 lb., at 6¢.

No. 8 Chas. A. Dodge, 6½ lb. veal roast at 16¢; 12 lb. G. sugar at 6½¢; 12 S. F. eggs, 28¢; 1 bx. dried peaches, 10 lb., at 15¢; ¼ gr. matches, 25¢.

No. 9 Mrs. A. Waldron, 9½ lb. turkey at 16¢; 10 lb. lard at 12½¢; 1 gal. vinegar, 25¢; 1 lb. E. B. tea, 60¢; 1 qt. pickles, 15¢; 2 lb. raisins at 15¢.

No. 10 P. J. McGuire, 1 tub butter, 43½ lb., at 22¢; 1 tub lard, 48 lb., at 11¢; 22½ lb. rib roast at 14¢; 11½ lb. pork roast at 10¢; 8 lb. sirloin steak at 15¢; 1 case eggs, 30 doz., at 20¢; 1 doz. C. tomatoes, $1.

No. 11 E. B. Woods, 7½ lb. chicken at 15¢; 15 lb. tub butter at 22¢; 3 lb. raisins at 15¢; 2 lb. citron at 20¢; 2 lb. dried currants at 12½¢; 8 lb. beef at 8¢.

No. 12 Mrs. F. Gilford, 4½ lb. chicken at 15¢; 1 sack buckwheat flour, $1.25; 1 gal. M. sirup, $1.25; 5 lb. lard at 12½¢; 1 bx. dried apricots, 5 lb., at 20¢; 2 pkg. shredded wheat, 25¢.

Cash sales for the day, per cash tickets, $362.28.

Received cash as follows: E. B. Woods, balance of October account; Mrs. A. Waldron, on account, $20; E. L. Corey, to balance October account; C. A. Dodge, to balance October account; James B. Longley, on account, $25.

Had C. H. Stratton's note of Oct. 15 discounted at the City Bank, and net proceeds placed to credit. Face of note, $212.40; interest for 4 mos., $4.25; discount 92 days, $3.32.

Deposited, $400.

Paid cash as follows: (Checks) Adams & Hackland, on account, $200; E. J. Dunn Grocery Co., invoice of Nov. 1, less 5% (deduct $37.50, amount of goods returned); note in favor of S. S. Pierce & Co., due Nov. 14, with interest; face of note, $458.95; interest, $1.53; Armour & Co., invoice of Nov. 8, less 2%; American Sugar Refining Co., invoice of Nov. 8, less 1%; insuring stock of groceries and fixtures one year from date; policy, $3500; premium, 1%. (Currency) purchases from National Market Co., $63.42; shoeing horse, $1.25; board of horses, $10; salaries, Canfield, $12; Stuart, $12; Holt, $15; Carter, $15; telegrams and telephone service, $1.87; freight, $17.42.

J. M. Marsh drew cash for private use, $60. (Student) drew cash for private use, $50.

Received of P. J. McGuire his note at 90 ds., with interest, to balance October account.

Accepted Cobb, Bates & Yerxa's draft at 30 ds. for the amount of their invoice received this day.

November 22, 19—

Bought of Gray Bros., City, 60 ds., 3/10, 92 lb. turkey at 14¢; 56 lb. chicken at 12½¢; 60 doz. S. F. eggs at 22¢.

Bought of Armour & Co., Chicago, net 30, 2/10, invoice amounting to $112.20.

Purchased of Swift & Co., Chicago, net 60, 3/10, invoice amounting to $168.30.

Purchased of M. S. Newton & Sons, Boston, net 30, 2/10, invoice amounting to $34.62.

Bought merchandise from National Market Co., for cash, amounting to $46.28.

The following sales slips have been handed in by the salesmen.

No. 1 Mrs. A. Waldron, 2 lb. sirloin at 16¢; 9½ lb. rib roast at 14¢; 15 lb. G. sugar at 6½¢; 1 bx. dried peaches, 10 lb., at 12¢; 1 can peas, 15¢; 1 bu. potatoes, 60¢.

No. 2 P. J. McGuire, 2 bbl. Baldwin apples at $2.50; 10 bu. E. R. potatoes at 55¢; 24 doz. case eggs at 18¢; 20 hd. cabbage at 8¢; 42 lb. beef, sirloin, at 15¢; 18 lb. fresh fish at 12¢; 1 bbl. N. S. flour, $5.50.

No. 3 Mrs. S. T. Worthen, 20 lb. G. sugar at 6½¢; 10 lb. lard at 12½¢; 12 S. F. eggs, 28¢; 1 bbl. apples, $2.75; ½ bbl. pastry flour at $6; 6½ lb. sirloin roast at 16¢; 1 bottle bluing, 10¢; 1 bx. stove polish, 12¢.

No. 4 A. B. Ryder, 1 bx. dried peaches, 10 lb., at 12¢; 12 S. F. eggs, 28¢; 15 lb. G. sugar at 6½¢; 9½ lb. turkey at 16¢; 1 bx. poultry dressing, 25¢; 1 qt. oysters, 35¢.

No. 5 C. H. Stratton, 2 bbl. N. S. flour at $5.50; 1 bbl. pastry flour, $5.75; 2 bbl. apples at $2.50; 1 bx. oranges, $4.25; 16 lb. sirloin steak at 15¢; 24 lb. sirloin roast at 14¢; 18 doz. S. F. eggs at 25¢; 1 bu. beans, $3.

No. 6 Mrs. Wm. Hanson, 2 pkg. rolled oats, 25¢; 5 doz. case eggs at 22¢; 25 lb. G. sugar at 6½¢; 12 lb. rib roast at 14¢; 1 5-lb. can Java coffee, $1.50; 1 can E. B. tea, 10 lb., at 50¢.

No. 7 Wm. Harper, 9 lb. chicken at 15¢; 4 lb. salt pork at 10¢; 12 S. F. eggs, 28¢; 12 oranges, 35¢; 1 lb. E. B. tea, 60¢; 15 lb. G. sugar at 6½¢.

No. 8 E. L. Corey, 2 lb. sirloin steak at 16¢; 5½ lb. veal roast at 18¢; 1 bx. dried prunes, 10 lb., at 15¢; 1 bbl. apples, $2.75; 1 lb. chocolate, 40¢.

No. 9 T. B. Tucker, 25 doz. S. F. eggs at 24¢; 20 bu. E. R. potatoes at 50¢; 40 hd. lettuce at 2¢; 1 case Cream of Wheat, 36 pkg., at 12½¢; 42½ lb. beef, sirloin, at 15¢; 1 hf. cht. E. B. tea, 50 lb., at 60¢; 1 mat Java coffee, 75 lb., at 28¢.

No. 10 James B. Longley, 1 mat Rio coffee, 75 lb., at 15¢; 1 hf. cht. Japan tea, 50 lb., at 35¢; 2 gal. oysters at $1.25; 1 tub butter, 40½ lb., at 22¢; 28 lb. fresh fish at 12¢; 12 doz. case eggs at 18¢.

No. 11 E. B. Woods, 1 qt. oysters, 40¢; 6 lb. pork loin at 12½¢; 10 lb. lard at 12½¢; 1 lamp, 65¢; 1 lb. chocolate, 40¢; 1 lb. baking powder, 50¢.

No. 12 Edward Austin, 8½ lb. corned beef at 12¢; 1 hd. cabbage, 10¢; 5 gal. K. oil at 13¢; 12 S. F. eggs, 28¢; 12 oranges, 35¢; 1 5-lb. can Java coffee, $1.50.

Cash sales for the day, per cash tickets, $422.16.

Received cash as follows: Mrs. S. T. Worthen, balance of October account; Mrs. Wm. Hanson, $25, to apply on account; Wm. Harper, to balance October account; E. Austin, to balance October account; T. B. Tucker, $50, to apply on account.

Discounted at the City Bank G. M. Kelly's note, dated Sept. 19, at 4 months, with interest. Face of note, $622.85; interest, $12.46; discount, $6.14; net proceeds placed to credit.

Deposited $400.

Paid cash as follows: (Checks) Hackett Bros., invoice of Nov. 8, less 2%; S. M. Crockett & Co., invoice of Nov. 8, less 3%; Swift & Co., invoice of Nov. 8, less 1%. (Currency) board of horses, $10; railroad mileage ticket, 500 miles, $10; salaries, Canfield, $12; Stuart, $12; Holt, $15; Carter, $15; freight, $1.45; purchases from National Market Co., $46.28.

Gave S. S. Pierce & Co. our note at 60 ds., with interest, to pay invoices of Oct. 29 and Nov. 15, less 3%.

NOVEMBER 29, 19—

Purchased of Cobb, Bates & Yerxa, acceptance 30 ds., merchandise invoiced at $182.77.

Bought of Armour & Co., Chicago, net 30, 2/10, invoice amounting to $83.49.

Purchased of Swift & Co., Chicago, net 30, 2/10, invoice amounting to $87.96.

Bought of M. S. Newton & Sons, Boston, net 30, 2/10, merchandise invoiced at $28.42.

Bought of S. S. Pierce & Co., Boston, net 60, 3/10, invoice amounting to $63.14.

Purchased produce from National Market Co., for cash, $62.46.

The following sales slips have been handed in by the salesmen.

No. 1 Mrs. S. T. Worthen, 2½ lb. sirloin steak at 16¢; 1 lb. Ceylon tea, 80¢; 12 oranges, 35¢; 1 broom, 30¢; 2 lb. raisins at 15¢.

No. 2 A. B. Ryder, 1 bx. cigars, $5.50; 1 bbl. pastry flour, $6; 12 oranges, 35¢; 8½ lb. lamb roast at 16¢; 15 lb. G. sugar at 6½¢; 12 S. F. eggs, 28¢.

No. 3 C. H. Stratton, 42½ lb. butter at 24¢; 64 lb. turkey at 15¢; 2 gal. oysters at $1.20; 1 bbl. G. sugar, 217 lb., at 6¢; 1 case Ceylon tea, 50 lb., at 52¢; 22 doz. S. F. eggs at 26¢.

No. 4 Edward Austin, 9½ lb. turkey at 16¢; ½ bbl. pastry flour at $6; 12 bananas, 25¢; 1 pkg. gelatine, 15¢; 1 bx. honey, 22¢.

No. 5 E. L. Corey, 12½ lb. turkey at 16¢; 1 qt. oysters, 35¢; 1 bx. cigars, $3.50; 1 can peas, 15¢; ¼ gr. matches, 25¢; 6 lb. loaf sugar at 8¢.

No. 6 P. J. McGuire, 200 cigars at $55 per M.; 500 cigars at $35 per M.; 42 lb. lamb at 12¢; 1 bbl. G. sugar, 231 lb., at 6¢; 22 lb. beef, sirloin, at 15¢; 1 mat Java coffee, 75 lb., at 28¢.

No. 7 Mrs. A. Waldron, 1 bbl. pastry flour, $6; 20 lb. tub butter at 25¢; 6½ lb. veal, roast, at 18¢; 1 can peas, 15¢; ½ lb. pepper at 80¢; 2 pkg. shredded wheat, 25¢.

No. 8 Mrs. Fred Gilford, 8½ lb. sirloin roast at 16¢; 1 bbl. pastry flour, $6; 4 lb. dried peaches at 12¢; 12 S. F. eggs, 28¢; 1 can peas, 15¢.

No. 9 Chas. A. Dodge, ½ bbl. pastry flour at $6; 8½ lb. sirloin roast at 16¢; 1 lb. cocoa, 40¢; 1 5-lb. can Java coffee, $1.50; 1 qt. pickles, 15¢; 2 lb. cheese at 16¢; 5 lb. print butter at 30¢.

No. 10 T. B. Tucker, 1 hf. cht. E. B. tea, 60 lb., at 50¢; 1 gal. olive oil, $2.50; 22 lb. fresh fish at 12¢; 48 lb. beef, sirloin, at 15¢; 1 doz. T. ketchup, $2; 1 bbl. G. sugar, 226 lb., at 6¢; 10 bu. E. R. potatoes at 55¢; 1 bbl. pastry flour, $6; 103 lb. winter squash at 2¢.

No. 11 James B. Longley, 26 lb. lobster at 16¢; 3 gal. oysters at $1.25; 500 oysters, New York count, at 60¢ per C.; 52 lb. turkey at 15¢; 1 gal. olive oil, $2.50; 22 lb. sirloin steak at 15¢.

No. 12 Mrs. Wm. Hanson, 1 bbl. N. S. flour, $5.75; 4 doz. case eggs at 20¢; 23½ lb. turkey at 15¢; 9½ lb. fresh fish at 12¢; 1 case corn, 36 cans, at 8¢; 1 case tomatoes, 36 cans, at 8¢.

Cash sales for the day, per cash tickets, $436.98.

Received cash as follows: Mrs. A. Waldron, to balance October account; Mrs. Wm. Hanson, to balance October account; J. B. Longley, on account, $25.

Sold one horse for $90.

Had C. H. Stratton's note of the 8th inst. discounted. Face of note, $268.75; discount, $1.75; net proceeds placed to credit.

Deposited $350.

Paid cash as follows: (Checks) Adams & Hackland, on account, $200; Cavanaugh Bros., for bay horse to replace the one sold this day, $125; M. S. Newton & Sons, bills of Nov. 8 and Nov. 15, less 1%; Armour & Co., invoice of Nov. 15, less 2%; Swift & Co., bill of Nov. 15, less 3%. (Currency) purchases from Nat. Market Co., $62.46; freight, $4.27; board of horses, $10; shoeing horse, $1.25; salaries, Canfield, $12; Stuart, $12; Carter, $15; Holt, $15.

J. M. Marsh drew cash for private use, $25. (Student) drew cash for private use, $25.

Close your cash book, purchases journal, and abstract sales book.

Following is a model form for the closing of the credit side of your cash book.

	30		Accounts Payable Dr.		7642	50			
	30		Discount on Purchases Cr.				76	92	
	30		Cash Cr.						9456	18
	30		Balance on hand						231	13
									9687	31

Posting. *First.* Post from your statement sheets, from the debit side of the cash book, and from the journal to the card ledger, as in October.

Second. Post the total of the " Sales on Account " column of the Abstract Sales Book to the debit of Accounts Receivable in the general ledger. Post the total of the " Accounts Receivable " column in the cash book to the credit of Accounts Receivable account in the general ledger. Post the total of the credits to customers in the journal to the credit of Accounts Receivable.

Third. Post the amount of the " Monthly Sales " column of the Abstract Sales Book to the credit of Sales in your general ledger.

Fourth. Post the footing of the " Amount of Invoice " column in the purchases journal to the debit side of Purchases Account and to the credit side of Accounts Payable in the general ledger, and post each separate invoice, except cash purchases, to the credit of the proper account in the purchases ledger.

Fifth. Post the total of the " Accounts Payable " column in the cash book to the debit of Accounts Payable in the general ledger. Post the charges to creditors in the journal to the debit of proper accounts in the purchases ledger and the total of such charges to the debit of Accounts Payable in the general ledger.

Sixth. Post the total of the " Discount on Purchases " column in the cash book to the credit of that account in the general ledger and the total of " Discount on Notes Receivable " to the debit of that account in the same ledger.

Seventh. Post all other items in the journal and cash book as you have done hitherto in double entry sets.

The inventory of unsold merchandise amounts to $4595.21. Horses, wagon, and harnesses are valued at $500; furniture and fixtures valued at $112.50; unexpired insurance, $32.08.

Take a trial balance of the general ledger. Make a schedule of the balances of the accounts in your card ledger and compare the total of such balances with the balance of the Accounts Receivable account in the general ledger. If they do not agree find your mistake.

Make a schedule of the balances in your purchases ledger and compare the total of such balances with the balance of the Accounts Payable account in your general ledger. If they do not agree find your mistake.

Make a statement of losses and gains and a statement of resources and liabilities (see forms, pages 184 and 185).

Close the general ledger by making closing entries in the journal and posting such entries from that book.

Take final Trial Balance.

Hand your books and vouchers to your teacher for inspection.

WHITE AND MARSH

PROFIT AND LOSS STATEMENT, NOVEMBER 1–30, 19—

Sales for Month			$4516 32
Deduct:			
Cost of Goods Sold:			
Inventory November 1, 19—		$3875 24	
Purchases		3216 28	
Freight-In		25 17	
Total Cost of Goods		$7116 69	
Less:			
Inventory November 30, 19—		3005 65	4111 04
Gross Profit on Sales			$405 28
Deduct:			
Operating Expenses:			
Salaries		$226	
Insurance Cost	$35.		
Less: Unexpired Insurance	32.08	2 92	
Stable Expense		40	
Office Supplies		5	
Miscellaneous Expenses		7 29	
Depreciation on:			
Horses and Wagons		50	
Furniture and Fixtures		12 50	343 71
Net Profit from Operations			$61 57
Add:			
Other Income			
Discount on Purchases		$175 12	
Interest on Notes Receivable		14 28	$189 40
Total Income			$250 97
Deduct:			
Other Charges			
Discount on Sales			$15 07
Net Profit:			$235 90
Distributed as follows:			
A. B. White one-half		$117 95	
C. D. Marsh one-half		117 95	235 90

EXERCISES

NOTE. — The entries, statements, etc., called for in these exercises should be made on loose journal paper.

1 Determine the percentage of loss for the month of October on the capital invested.

The percentage on capital invested is found by comparing the net gain or net loss with the net capital.

2 Determine the percentage of gross gain from sales in the month of November as shown by your statement of losses and gains.

The percentage of gross gains from sales is found by dividing the amount of the gross gain by the amount of the sales; and the percentage of net gain is found by dividing the amount of the net gain by the amount of the sales.

3 Determine the percentage of net gain on sales for November, as shown by your statement of losses and gains.

4 Determine the percentage of net gain for November on the capital invested, as shown by your statement of resources and liabilities.

WHITE AND MARSH

BALANCE SHEET, NOVEMBER 30, 19—

ASSETS			
Current Assets:			
Cash		$984 06	
Notes Receivable		215 98	
Accounts Receivable		2236 69	
Merchandise Inventory		3005 65	$6442 38
Fixed Assets:			
Horses and Wagons		$450	
Furniture and Fixtures		125	575
Expense Items Paid in Advance:			
Insurance Unexpired			32 08
Total Assets			$7049 46
LIABILITIES AND CAPITAL			
Current Liabilities:			
Notes Payable		$529 25	
Accounts Payable		798 75	
Total Liabilities			$1328
Capital:			
A. B. White Investment	$2742.78		
½ net profit	117.95	2860 73	
C. D. Marsh Investment	2742.78		
½ net profit	117.95	2860 73	5721 46
Total Liabilities and Capital			$7049 46

5 Determine the percentage for running the business for the month of November, as shown by your statement of losses and gains.

6 H. C. Bowen has been conducting a retail dry goods business and keeping his books by single-entry. His present worth at the beginning of the year, as shown by his books, was $5826.13, and his present resources and liabilities at the end of the year are as follows:

Resources: Merchandise inventory, $4783.24; Furniture and fixtures, $450; Motor delivery wagon, $1500; Cash as per cash register, $36.46; Cash in bank as per check book, $1242.81; Accounts receivable as per customers' ledger, $375.52; Unexpired insurance, $39.25.

Liabilities: Accounts payable as per purchases ledger, $1275; Note payable as per notes payable book, $300.

Determine (1) Bowen's present worth; (2) the net gain or net loss for the year; (3) the percentage of gain or loss for the year on the capital investment.

7 Show the journal entry you would make if you were employed by Mr. Bowen to change his books from single entry to double entry, and explain the steps you would take in making the change.

8 T. H. O'Meara is doing a retail business and has been keeping his books by single entry. He engages you as bookkeeper and instructs you to open and keep a set of double entry books. Suppose, after you have opened the new books, you should discover that Jones & Co. hold Mr. O'Meara's note for $250, and that it had not been included in the list of resources and liabilities. Show the entry or entries that would be made for this item, to correct the omission.

9 You have changed a set of books from single entry to double entry, and the proprietor's investment account shows his present worth to be $7836.51. Suppose a customer's account,

amounting to $28.75, which the proprietor had considered worthless, and which was not included in the new books, is paid in full in cash. Show the entry or entries you would make for this item.

10 J. M. Irwin is conducting a retail grocery and meat business in two adjoining stores. T. A. Coleman, desiring to purchase a going business, offers Irwin $3500 cash for the good will, stock in trade, and fixtures of the grocery part of the business, and the lease rights of the grocery store. Assume that Mr. Irwin has accepted the proposition, that a bill of sale has been executed, and that the cash has been paid. All bills for the grocery stock have been paid by Irwin, and he will collect all bills due him for groceries.

If the books are kept by single entry, show the entry or entries on Irwin's books for the above transaction. Show the same on Coleman's books.

11 Assume that Coleman will keep his books by double entry. Show the proper entry or entries for the transaction in No. 10, estimating the good will at $500, the fixtures at $300, and the stock of groceries at $2700.

12 Eden & Kline are conducting a retail business, and their books on Dec. 31, 19—, showed that their sales for the year were $12,687.92; their purchases, $9454.45; and stock on hand at beginning of year, $7675.86. The following accounts showed debit balances: Freight, $64.32; Salaries, $1575; Expense, $254.93; Furniture and Fixtures, $850; Horses and Wagons, $425; Notes Receivable, $246.39. An abstract of the customers' ledger showed amounts due, $2916.57; cash on hand and in bank, $891.27. The following accounts showed credit balances: F. R. Eden, $5000; J. B. Kline, $5000; Notes Payable, $1227.46; Accounts Payable, $314.39; Interest, $6.74; Purchases Discount, $117.28.

The inventories were as follows: Merchandise, $7886.25; Horses and Wagons, $375; Furniture and Fixtures, $750; Insurance, unexpired, $54.65; Interest accrued on notes payable, $11.04.

From the above data make a trial balance, a statement of losses and gains, and a statement of resources and liabilities. Show the percentages of gross gain and net gain from the business, and the percentage of net gain on the capital.

13 Assume that Eden & Kline decided to keep their books by single entry after Dec. 31, 19—, running personal accounts only, and that the ledger has been closed as of that date. Show the journal entry you would make to change their books from double- to single entry, using the data on their statement of resources and liabilities (No. 12).

Since only personal accounts are to be run (kept), it will be necessary for you to make such an entry as will, when posted, close all other accounts. Make an entry as if you were going to close all of the accounts, then check the personal accounts; the remaining items, when posted, would close the impersonal accounts, and the ledger would then be in single entry form.

14 Suppose that Eden & Kline's business year ended June 30, instead of Dec. 31, and that they decided to change their books on the former date, without taking inventories, or determining the condition of the business. Show the journal entry you would make to effect the change.

While it is necessary to know the actual resources and liabilities of the business to change from single to double entry, only the open accounts need be considered in changing from double- to single entry. A trial balance should be taken which will serve as the basis of the journal entry.

The following exercises are given for practice in schools which have adding machines:

15 Determine from the daily sales slips the number of eggs sold on account in October by listing the quantities in units (single articles); the number sold on account in November; show the quantity in dozens below the footing of each list.

16 Recapitulate the daily sales and prove your abstract sales sheet for October by listing first, your charge sales for that month, and show sub-totals; and second, your daily cash sales, and show total sales for each day.

17 Prove your daily charge postings to customers' accounts for November by listing the charge items to these accounts and comparing the footing of each day's postings with the amount of the charge sales, or sub-totals, for each day on the recapitulation list.

18 Prove your monthly statements for October by listing your charge postings for that month, showing the amount of each statement as a sub-total, and the total of the statements.

QUESTIONS

1 In what respect does a single entry ledger differ from the ledger of a business in which the books are kept by double entry?

2 How would you keep a record of cash transactions, and how would you determine the amount of notes receivable and the amount of notes payable at any stated time?

3 How would you keep a record of your merchandise?

4 Is it possible to show as complete a record of the business by single entry as by double entry?

5 What does the single entry journal contain?

6 Describe the sales slip, and explain its use in the retail grocery business. Why are sales slips written in duplicate?

7 Describe the method of making cash sales and of recording the amounts of such sales.

8 To what books are the cash sales of the day carried?

9 Explain the abstract sales sheet and the abstract sales book.

10 Of what is the purchases journal an abstract? What will the footing of its Amount of Invoice column show?

11 What will the total footing of the abstract sales book show at any time?

12 Where are the items of the sales slips carried, and when should this be done?

13 What should the customer's monthly statement contain, and what should his account in the ledger contain?

14 What advantages has the card ledger over the ordinary book form of ledger?

15 How should customers' statements be posted to the card ledger?

16 What is the first step you would take preparatory to changing a set of books from single to double entry?

17 What additional steps would you take?

18 How do you obtain the necessary balances of the additional ledger accounts?

19 What additional accounts must be opened in the ledger when changing from single to double entry?

20 Suppose a resource or a liability item had been omitted in making the statement of resources and liabilities and was not discovered until after the books had been changed to double entry. How would you correct the omission?

21 Name an account which will always be affected by the correction of such an omission.

22 How would you change a set of books from double entry to single entry?

23 Could the same books be used after the change had been made? Explain.

24 Which method of bookkeeping do you prefer, single or double entry, for an ordinary retail business?

25 Under what conditions would you prefer the other method?

COMMISSION, SHIPPING, AND MERCHANDISING BUSINESS

A large variety of produce and manufactured products are shipped to trade centers, and there sold to the wholesale and retail trades through the medium of correspondents who are known as Commission Merchants.

A **Commission Merchant** is a person engaged in receiving and selling goods belonging to others, for a compensation called a commission, which is generally a certain per cent on the sales. The property is generally sold at the current market rates. Sometimes the shipper leaves the matter of price and terms to the judgment of the commission merchant. This is generally done in the produce commission business, and in other branches of the commission business which deal with perishable property; but in case of manufactured products, the shipper usually limits the price below which the goods must not be sold, and also establishes the terms of credit.

Some commission merchants do both a shipping and a commission business, and a few do a general merchandising business in connection with the shipping and commission business.

Shipments and Consignments. — When property is shipped to be sold, it is called a "Shipment," and the party who ships it is called the "Consignor." When property is received to be sold, it is called a "Consignment," and the party who receives the property is called the "Consignee." The consignor generally sends the consignee notice of a shipment in the form of a letter of advice, or a consignment invoice, and a bill of lading.

Shipments Account. — The Shipments account is an account with the goods (merchandise) which we have shipped to others to be sold on commission. The debit side represents the total cost of all goods shipped, and the credit side shows the proceeds of the goods which have been sold for us, and for which we have received an account sales. When we have received accounts sales for all goods shipped, the difference between the debit and credit sides of the Shipments account will be either a gain or a loss. If all our shipments have not been closed out and accounted for, the value of the unsold shipments is a resource inventory. This includes the original cost of the goods shipped, as well as any additional cost, such as freight, insurance, and drayage. We consider any unsold goods which we have shipped to be sold on our account and risk as worth what we have put into them.

Consignments Account. — The credit side of the Consignments account represents the total sales from all consignments, and the debit side includes all costs, charges, and net proceeds. Since the net proceeds on each consignment are determined by taking the difference between the sum of the costs and charges (including advances) and the amount of the sales, it will be seen that when all consignments have been sold out and accounts sales rendered, the Consignments account must balance.

If the account has a debit balance, it signifies that the costs and advances which have been made upon open consignments are greater than the sales from these consignments. In such a case the difference is a resource or asset, since it is the amount due from the consignors.

If the Consignments account is larger on the credit side, it indicates that the total of the sales from consignments for which you have not rendered accounts sales is greater than the costs and any advances which you have made. This difference would be due the consignors, and therefore is a liability.

It is clear, then, that if the Consignments account does not balance, it will show either a resource or a liability, and will appear on one or the other side of the Statement of Resources and Liabilities.

Although the student will receive special instructions in regard to the entries for the various transactions as they occur, it will be well for him to bear in mind continually the following general rules, which govern all entries for shipment and consignment accounts.

Rule for Shipments

SHIPMENTS ACCOUNT is debited for the total cost of the goods shipped, and is credited for the net proceeds.

Rule for Consignments

CONSIGNMENTS ACCOUNT is debited for all costs, charges, and net proceeds returned to the consignor, and is credited for all sales.

Books Kept. — The books kept in a shipping and commission business depend upon the kind of goods handled and the magnitude of the business. The following set illustrates a method of bookkeeping adapted to the requirements of the produce commission business.

The books to be kept in this work are sales book, account sales register, shipment ledger, cash book, purchases journal, journal, general ledger, and loose-leaf consignment ledger. The forms of the purchases journal and the journal will be the same as those you have kept in the Introductory Course. As but few notes appear in these transactions, the notes receivable and notes payable books will be dispensed with.

It is the custom of most commission houses to enter a description of each lot of goods received in a book called the receiving book, which is usually a book about six inches wide with rulings like those of an ordinary daybook. The entries in this book are made in pencil, and the book is kept by the clerk in the store or warehouse. The receiving book is left in the office at the close of the day, or at other convenient times, so that the bookkeeper can make the necessary entries from it. Commission houses generally use two sets of receiving books, so that those which are in use by the receiving clerk on one day will be in the office on the next.

An account is opened with each lot of goods under an appropriate name in a book called the consignment ledger. Each account contains on its credit side all sales made from the lot of which it is the record, and on its debit side all charges against this lot. When the lot is all sold, an account sales is rendered to the consignor.

By the use of the loose-leaf consignment ledger, a description of which follows, the receiving book, consignment ledger, and account sales are combined in one, and the bookkeeping is greatly simplified.

Each consignment should be accompanied by a letter of advice, containing the list of goods, and this letter should be compared with the goods when they are received, and if there is any shortage, the consignor should be notified at once. The receiving clerk generally enters the goods on a blotter as they are unloaded from the trucks, and from the blotter the bookkeeper transfers the items to a loose leaf of the consignment ledger. (See model, page 190.)

When a consignment is received, the lot number given it is stenciled or marked upon each package, if the package is not already so marked, and the goods are thereafter known, while in the store or warehouse, and when sales are made from them, by that number. Goods which are not in packages, and which are of such a nature that a lot number cannot conveniently be put upon them, are placed in stalls or apart from other goods, and a placard bearing the lot number is posted up over them. A knowledge of the sources from which the commission merchant obtains his consigned goods is valuable to him, and he desires to conceal it from his competitors and customers. It is partly for this reason that he uses lot numbers or arbitrary marks to identify the goods while they are in his store or warehouse.

LOOSE-LEAF CONSIGNMENT LEDGER

M-1

SALE OF MERCHANDISE FOR ACCOUNT OF E. Mason & Co.
Milford. (Your state.)

BY **E. H. REED & COMPANY,**
COMMISSION MERCHANTS,

(Your place here.)

INVOICE NO. 1
INVOICE DATE July 12, 19

(Write your own name here.) MANAGER.

19		Folio.						
July	16		RECEIVED, 12 tubs Butter, 10 css. Eggs 5 boxes Cheese					
	16	C-3	FREIGHT, CARTAGE, ETC.		4	20		
			ADVANCES.					
			SALES.					
	16	1	5 css. Eggs, 120 22¢ doz., 2 tubs Butter 120 24¢ #				55	20
	16	1	2 bxs. Cheese 110 18¢ # 10 tubs " 600 24¢ #				160	50
	17	2	3 " " 165 15¢ # 5 css. Eggs 120 doz. 22¢				51	15
	18		COMMISSION, 5%		13	34		
			CHARGES, 1%		2	67		
			NET PROCEEDS, N. Y. draft		246	64		
					266	85	266	85

The Consignment Ledger. — In this business, when goods are received to be sold on commission, the consignment will be entered on a loose leaf of the consignment ledger, as shown in the illustration on this page. The consignment ledger is a subsidiary ledger.

In the small square at the upper right-hand corner of this loose leaf is written the stencil, or private mark, of this consignment, and every package in the consignment will be marked with the same stencil. These stencil marks are arbitrary, and any letter, number, or symbol may be used. In this business the initial letter of the consignor and the number of his consignment will be used as a stencil mark. The loose leaf is now fastened to its cover and becomes a part of the consignment ledger. The amount of freight as shown by the freight bill, which will accompany the goods, should be entered in the left-hand or debit column of the loose leaf opposite *Freight.* This may be done at the time the goods are received, or later, when the amount is taken from the cash book. As the goods are sold, the items are entered in the space under *Sales* on the loose leaf, and the amounts carried to the right-hand or credit column. These amounts should be taken from the sales book, where they will be found in the special column for consignments. The contents of this column should be carried to the consignment ledger at the close of each day.

When all the goods which make up the consignment have been sold, the right-hand or credit column is footed and the amount placed at the bottom of the loose leaf.

If any sight drafts have been paid or time drafts accepted on account of this consignment, the amount should be placed opposite *Advances* in the debit column of the loose leaf. Such amounts will be found in the consignment column on the credit side of the cash book. Everything in this column should be carried to the debit side of the consignment ledger at the close of each day. The commission should now be calculated, and also any charges which may be due for cartage, insurance, storage, or other items of expense. In this business these items, except commission, will be combined under the head of "Charges." Enter the amount of commission and of charges in the left-hand or debit column of the loose leaf. The difference between the footing of the right-hand column and the sum of the items in the left-hand column of the loose leaf will show the net proceeds or amount due the consignor, and will, of course, balance the two columns of the loose leaf.

All writing upon the consignment ledger should be done in copying ink, for the leaf is now removed from the ledger, and a copy of it taken in the impression account sales book, the leaf itself being sent to the consignor with a check or draft for the amount of his net proceeds, unless the net proceeds are placed to his credit. In the latter case, the account sales should be sent without the remittance, and after *Net proceeds* the words *Placed to credit* should be written. It is important that a good copy of the account sales be taken in the impression book, for should any dispute arise this impression book will be accepted in court as your book of original entry, and many houses post charges, commission, and net proceeds directly from this book to their respective accounts in the ledger.

Shipment Ledger. — When goods are sent to other persons to be sold on commission, the date of shipment is written in the shipment ledger, with the name and address of the consignee, and the number of the shipment; then follows a description of the merchandise shipped, with the price, which, in a regular shipping business, should be the cost of the goods. (See form of shipment ledger, page 192.) The shipment ledger is a subsidiary ledger.

In the debit column, under *Ledger Accounts*, should be written the value of the merchandise as shown in the Merchandise column, and to this column is also posted, from the cash book, all expenses incurred on account of this shipment.

When an account sales of a shipment is received, the shipment is credited for the net proceeds from the cash book or journal, and since this disposes of the shipment, the ledger part of it is closed by writing in the usual way the amount of gain or loss on the smaller side of the account, and ruling and footing. (See models, A. M. Archer and D. W. Parks & Co., in the illustration on page 192.)

When the books are posted preparatory to the taking of a trial balance, the total of the Merchandise column in the shipment ledger is carried to the debit of Shipments and to the credit of Purchases in the general ledger. (See form of shipment ledger.)

The shipment ledger is a combined journal or sales book and ledger, the portion to the left of the Ledger Accounts columns partaking of the nature of a journal, and the part to the right of the Mdse. column being the ledger proper. When a shipment is made and entered in the Shipment ledger, it is equivalent to debiting Shipments and crediting Purchases in the journal and then posting the entries to the ledger. Each account in the shipment ledger is closed the same as in an ordinary ledger.

Controlling Accounts and Subsidiary Ledgers. (See page 173.) — This method of handling ledgers is illustrated in this set by placing all shipment accounts in the shipment ledger, all consignment accounts in the consignment ledger, and all the remaining accounts in the general

SHIPMENT LEDGER

INDEX, CHECK, AND FOLIO	JAN. 2, 19—	MDSE.	LEDGER ACCOUNTS					
			Debits		Credits		Folio and Explanation	Date
	A. M. Archer, #1, Brooklyn, N. Y.							
	100 bbl. Apples, N. S., 2.80	280	712					
	30 tubs Butter, 1800 lb., 20¢	360			785	90	C. 4	Jan. 9
	20 cs. Eggs, S. F., 480 doz., 15¢	72	*73*	*90*			*Gain*	*9*
	Via National Despatch,							
			785	90	785	90		
	4							
	F. W. Smith Com. Co., #1, Boston.							
	250 bbl. Apples, Baldwin, 2.50	625	733					
	30 cs. Eggs, S. F., 720 doz., 15¢	108						
	Via National Despatch,							
	5							
	D. W. Parks & Co., # 4, Pittsburg, Pa.							
	2400 bu. Potatoes, 35¢	912	961					
	20 bbl. Apples, Baldwin, 2.45	49	17	50			C. 5	Jan. 5
	Via Interstate Line,				942	60	C. 4	16
					35	*90*	*Loss*	*16*
			978	50	978	50		
	5							
	Jas. F. Brennam, #1, New York.							
	50 tubs Butter, 3050 lb., 20¢	610	748	60				
	12 bx. Cheese, 1260 lb., 11¢	138	60					
	Via Interstate Line,							
	Shipments, Dr.							
3/2	Purchases, Cr.	3154	60					

ledger. The accounts in the subsidiary ledgers are said to underlie the controlling accounts which represent them in the general ledger. In the general ledger there will be opened a *Shipments* account, representing or controlling the shipment ledger, and a *Consignments* account, representing or controlling the consignments ledger. Note that all debits and credits of shipments and consignments when originally entered in the cash book, sales book, account sales register, and the journal portion of the shipment ledger, are placed in separate columns so that they may be footed at the end of the month and posted to the Shipments and Consignments accounts in the general ledger.

When the trial balance is taken, the general ledger will balance by itself. If it is desired, an abstract may be taken of the shipment and consignment ledgers, and it will be seen that, if the work is correct, the balance of the shipment ledger will agree with the balance of the Shipments account in the general ledger, while the balance of the consignment ledger will be the same as the balance of the Consignments account in the general ledger.

Sales Book. — The sales book contains a special column for sales made from consignments, and an Invoice extension column, which should contain the items and the total of the bill given the purchaser, who, as a rule, does not know whether the goods are purchased from a consignment or from the stock of the business. (See model, page 193.)

SALES BOOK.

Const. Lot No.	L. F.	Jan. 2, 19-		Invoice Extension.	Sales from Consignments.	Sales from Mdse.
		W. R. Bancroft, Net 30 ds.				
		Easton.				
K-1		60 doz. C. Tomatoes	90¢	54		
K-1		50 " " Corn	95¢	47 50	101 50	
		20 bbl. 3x Flour	4.50	90		90
				191 50		
		3				
	✓	E. M. Lacy, Cash				
		342 Colerain Ave.				
		40 bbl. 3x Flour	4.50	180		180
B-2		20 tubs Butter 1203 lbs.	25¢	300 75	300 75	
				480 75		
		"				
		Geo. Carson & Bro. Net 30 ds.				
		Westboro.				
		10 bbl. 3x Flour	4.50	45		45
K-1		20 doz. C. Tomatoes	90¢	18		
K-1		10 " " Corn	95¢	9 50		
B-2		5 tubs Butter 305 lbs.	25¢	76 25	103 75	
				148 75		
		"				
		National Market Co. Cash				
		82 Water St.				
B-2		10 tubs Butter 615 lbs.	25¢	153 75		
M-1		50 bu. Potatoes	40¢	20		
M-1		10 bbl. Apples	2.75	27 50		
				201 25		
			2%	4 03	197 22	
		Consignments Cr.			703 22	
		Sales, Cr.				315

ACCOUNT SALES

DATE		No.	CONSIGNOR	ADDRESS	TOTAL SALES	FREIGHT AND CARTAGE	COMMISSION	CHARGES
Jan.	10	K–1	J. M. Kendall	Rochester, N. Y.	203	10	10 15	1 75
	24	J–2	E. M. Jackson	Elmira, N. Y.	774	64 60	38 70	4
	26	M–1	C. D. Martin	Utica, N. Y.	582 60	21 40	29 13	2 50
	30	K–2	J. M. Kendall	Rochester, N. Y.	225	7 50	11 25	1 50
							89 23	
								9 75

When sales are entered in the sales book, the stencil mark of the consignment should be written opposite those items which are taken from consignments, and the amounts should be placed in the Consignments column, as well as in the Invoice Extension column. The amounts of such items as are sold from the stock of the business should be placed in the Sales column.

When the sales book is posted, the total of Consignments column should be carried to the credit of Consignments (controlling account) in the general ledger, and the total of the Sales Cr. column to the credit of Sales in the general ledger.

In this month's work cash sales will not be posted to the debit of the person making the purchase, as in previous work, and then posted back to his credit from the cash book, but such sales will be checked off in the sales book and also in the cash book, and not posted to the personal account from either book. This method of handling sales for cash is used where there is no special desire to keep a record of the amount of business transacted with each customer, and it will be seen that it saves a considerable amount of posting where cash sales are numerous. (See E. M. Lacy entries in form of sales book, and form of cash book, pages 193 and 196–197.)

Account Sales Register. — The account sales register is kept for convenience in posting commission and charges, and contains columns for the date, stencil mark of the consignment, name and address of the consignor, amount of gross sales, freight, commission, charges, goods returned, total charges, advances, net proceeds, cash remitted, amount to be posted, folio, name of account.

If accounts are kept with insurance, cartage, storage, etc., of course columns would be added for these accounts, as well as for commission and charges. In this month's work all these accounts are included under the general head *Charges*.

When an account sales is rendered, the necessary information should also be entered in the account sales register; and at the time of the general posting before a trial balance is taken, the footings of Commission and Charges columns should be carried to the Amount to be Posted column, and the names *Commission* and *Charges* written in the Name of Account column opposite these amounts in the account sales register. The total of Amount to be Posted column should be posted to the debit of Consignments, and the items which make up this total posted in the general ledger to the credit of the accounts to which they belong.

If an impression of the loose leaf of the consignment ledger is taken when an account sales is rendered, the account sales register may be dispensed with, as the commission charges, net proceeds, and total to consignments may be posted directly from the impression book.

Letter Impression Book. — In most business houses it is the custom to keep a copy of every written order, letter, postal card, account sales, deposit slip, etc., which leaves the house in the course of its business, as it is often of great importance that ready reference may be made to copies of such papers. This copy is obtained by means of a roller copying machine,

REGISTER

Packages Returned	Total Charges	Advances	Net Proceeds	Check or Draft	Amount to be Posted	L.F.	Name of Account	
	21 90		181 10	181 10				
	107 30	300	366 70		366 70	74	E. M. Jackson,	Cr.
5 bx.	53 03	200	329 57	329 57				
	20 25		204 75	204 75				
					89 23	58	Commission,	Cr.
					9 75	59	Charges,	Cr.
					465 68	47	Consignments,	Dr.

or of a letter impression book, which is made up of leaves of tissue paper, and a copy may be taken in this book from either a pen-written or a type-written sheet. If proper ink is used several copies may be taken from the same original.

When letters or invoices are copied in the letter impression book, they should be indexed at once for ready reference. (See form of letter impression book, page 198, showing the proper indexing.) When copied on the machine, the tissue copy is filed with the original communication.

Indexing. — It is important that all ledgers, as well as letter impression books, be properly indexed.

The vowel index shown in the model letter impression book is an excellent method of indexing, when the index is a part of the book itself, but the ledger index is generally a separate book, of which there are several labor-saving varieties on the market.

The card form of index is another and popular method of indexing accounts, where the number of accounts is large. A card is used for each account, and it may contain the name of the account, the number, address, ledger page, terms, etc. The cards are kept in trays in a cabinet, and are arranged in alphabetic or numerical order, with proper guide cards showing the important divisions. The advantages of the card index are similar to those of the card ledger, explained in the Retail Grocery Business.

Some bookkeepers, before posting a book, take the index, and from it page each item in the book from which posting is to be done, by writing in the folio column the page of the account in the ledger. After all the items to be posted have been paged, then each amount is carried to the ledger page indicated, and a check mark (✓) is placed next to the folio figures. If the ledger contains a large number of accounts, this method of posting will save time and also prevent errors, as the check mark is a double proof that the posting has been done. In actual practice every good bookkeeper will soon memorize the pages of all his principal ledger accounts, and not be obliged to refer constantly to his index.

Cash Book. — The cash book used in this set contains on the debit side columns for Net Receipts, Discount on Sales, Sundry Credits, and Shipments Cr. and on the credit side columns for Net Payments, Discount on Purchases, Sundry Debits, Shipments Dr., and Consignments Dr. (See form of cash book, pages 196 and 197.)

The balance of cash at any time may be found by taking the difference between the Net Receipts and the Net Payments columns.

Attention is called to the self-balancing feature of each side of the cash book, making it a cash journal composed of equal debits and credits. On the debit side, the footing of the Net

CASH RECEIPTS

DATE		L.F.	ACCOUNTS CR.		EXPLANATIONS	NET RECEIPTS		DISCOUNT ON SALES		SUNDRY CR.		SHIPMENTS CR.	
19—													
Jan.	1		W. H. Stevens		investment	3500				3500			
	2	√	Sales		cash sale	480	75			480	75		
	5		Notes Receivable		A. Barnes note	250				250			
	7		W. B. Andrews		invoice ¼ less 5%	237	50	12	50	250			
	9		Shipt. Archer #1		net proceeds	785	90					785	90
	11	√	Sales		cash sales	85	75			85	75		
	14		Ryan & Larcum		in full	900		22	50	922	50		
	15		Geo. E. Marcy		invoice 12/24	96	83			96	83		
	16		Shipt. D. W. Parker #4		net proceeds	942	60					942	60
	18		A. H. Mears		in full	248	75			248	75		
	20	√	Sales		cash sale	67	45			67	45		
	23		Shipt. C. H. Brooks #1		net proceeds	432	27					432	27
	25		Geo. Carter & Co.		invoice 1/16	66	25	8	75	75			
	27	√	Sales		cash sales	49	70			49	70		
	29		M. H. Gray		in full	78	96			78	96		
	30		Shipt. W. F. Moore #1		net proceeds	206	34					206	34
	31		Cash	(Dr.)		8429	05						
			Discount on Sales	(Dr.)				43	75				
		√	Sundry	(Cr.)						6105	69		
			Shipments	(Cr.)								2367	11
						8429	05						
Feb.	1		Balance		3681.33								

NOTE. — Prove each side by seeing that the sum of debit columns equals the sum of credit columns.

Receipts and Discount on Sales columns equals the footing of the Sundry Credits and Shipments Cr. columns. On the credit side the footings of the Net Payments and Discount on Purchases columns equal the footings of the Sundry Debits, Shipments Dr., and Consignments Dr. columns.

By this means the bookkeeper is able to make what amounts to a daily proof of the accuracy of the cash book.

The posting of items from the various columns of the cash book should be done daily, but the footings of the columns are not posted until the end of the month.

Note carefully how the cash book is closed and ruled preparatory to posting the footings at the end of the month.

Bank Account. — In this set keep your bank account in the check book as in the Introductory Course, which is in accordance with the following method.

Use the left-hand check stubs for a record of the deposits, and the right-hand check stubs for a record of the checks. The amount column of each of these stubs will be footed and carried forward from page to page, until it is desired to show a balance. This is done by deducting the total checks from the total deposits, on the left-hand check stubs.

In entering deposits on the left-hand stubs, write the amount of each item comprising the deposit a little to the left of the money column, and extend only the total, or net amount,

Cash Disbursements

Date	L.F.	Accounts Dr.	Explanations	Net Payments	Discount on Purchases	Sundry Dr.	Shipments Dr.	Consignments Dr.
19—								
Jan 2		General Expense	taxes	65		65		
3		Freight In.	on mdse.	42 75		42 75		
5		Shipt. D. W. Parker #4	freight	17 50			17 50	
7		Const. J.L. Osborn #1	"	18 90				18 90
9		H. F. Wood & Bros.	inv. ⅓ less 5%	570	30	600		
12		Shipt. C. H. Brooks #1	ins. & cartage	4 32			4 32	
13		Const. J.L. Osborn #1	net proceeds	742 30				742 30
15		J. C. Harper & Co.	inv. ⅓ less dis.	487 50	14 63	502 13		
16		Salaries	clerks	30		30		
16		Shipt. W.F. Larkin #3	ins. & cartage	5 25			5 25	
19		Const. H. A. Savage	net proceeds	944 60				944 60
19		General Expense	exchange	50		50		
23		M. B. Parks & Co.	inv. ¼ less 5%	760	40	800		
23		Freight In.	on mdse.	68 45		68 45		
25		Const. J.L. Osborn #2	freight	64 15				64 15
27		Morris & Elliott	inv. ½ less 2%	906 50	18 50	925		
30		Salaries	clerks	20		20		
31		Cash	(Cr.)	4747 72				
31		Disc't on Purchases	(Cr.)		103 13			
	√	Sundry	(Dr.)			3053 83		
		Shipments	(Dr.)				27 07	
		Consignments	(Dr.)					1769 95
		Balance in safe	97.40					
		bank	3583.93	3681 33				
				8429 05				

of the deposit in the money column. The record for a deposit should be a copy of the deposit slip, as heretofore.

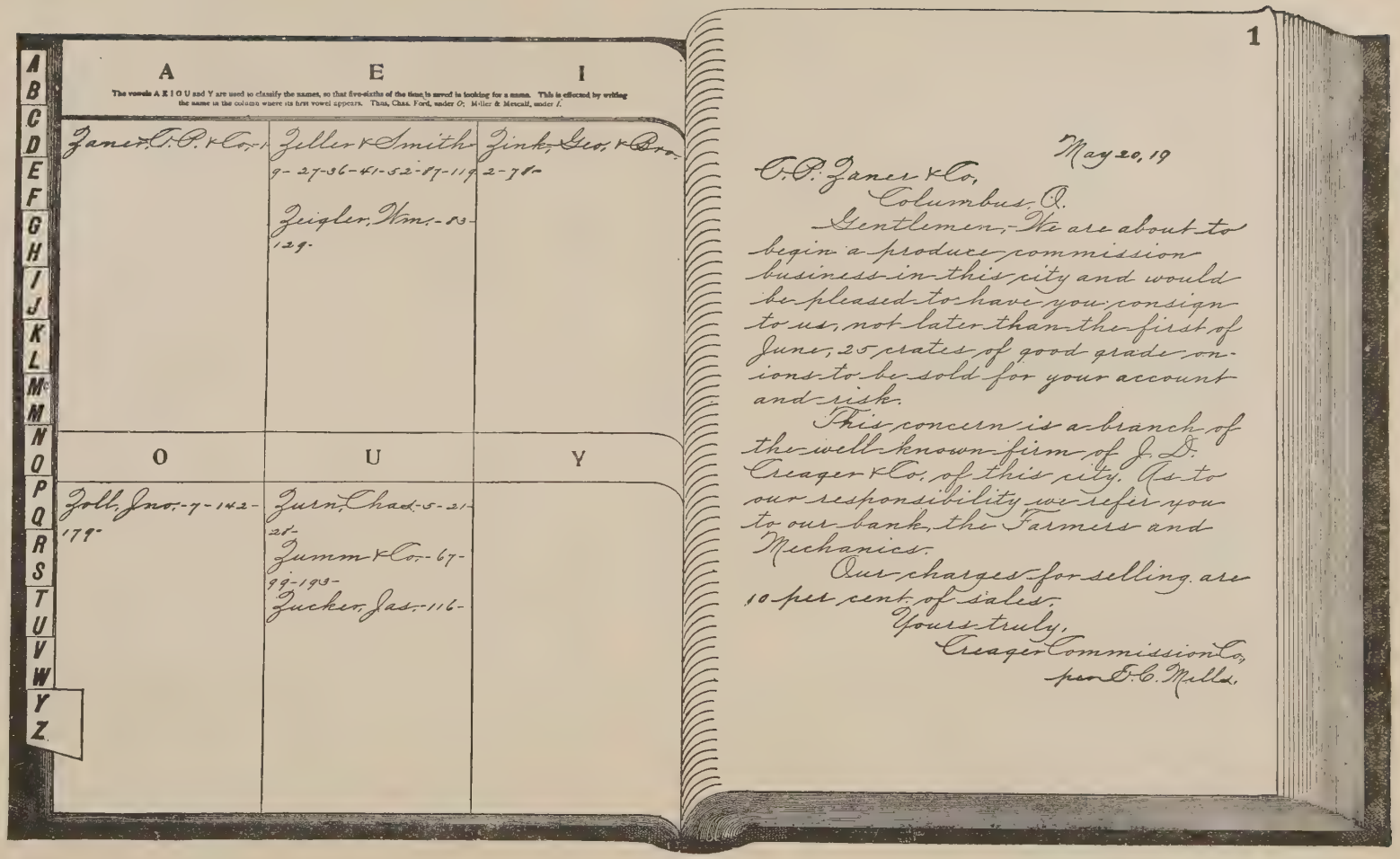
Some business houses keep a detailed record of deposits in a separate book, called a deposit book, and enter only the net, or total amount, and the date in the check book. Others take an impression of the deposit slip in a tissue book, like a letter book, or on a roller copying machine, and enter only the amount and date in the check book. This is one of the many labor-saving methods used in modern business houses.

When checks are paid by the banks, they are stamped *Paid*, or are otherwise canceled, and if drawn by their own depositors, they are filed until the depositors' pass books are written up, or statements are made out, when they are returned to the makers.

On account of the freedom with which checks circulate, and the consequent liability of their getting into the hands of dishonest or unscrupulous persons, several means are employed to prevent the raising or altering of checks and other similar negotiable instruments. Two of the most common means of safeguarding checks are by the use of safety paper on which erasures cannot be made without showing, and by the use of mechanical check protectors, of which there are several varieties. Some of these protectors rough or partly perforate the written figures in the amount, while others cut out or perforate in figures (omitting the cents) the amount expressed in the check. Another form cuts out or perforates the expression "not over $100," or any other desired amount.

The cancellation of checks in banks is done either by rubber stamps or by canceling or perforating machines, which are operated either by hand or by electricity. These machines will cancel from ten to fifty or more checks in one operation, depending upon the kind of machine and the power used.

Letter Impression Book


A B C D E F G H I J K L M N O P Q R S T U V W Y Z
A E I
The vowels A E I O U and Y are used to classify the names, so that five-sixths of the time is saved in looking for a name. This is effected by writing the name in the column where its first vowel appears. Thus, Chas. Ford, under O; Miller & Metcalf, under I.
Janes, C. P. & Co.-1-
Jeller & Smith-9-27-36-41-52-87-119-
Zeigler, Wm.-53-129-
Zink, Geo. & Bro.-2-78-
O
U
Y
Zoll, Jno.-7-142-179-
Zurn, Chas.-5-21-25-
Zumm & Co.-67-99-193-
Zucker, Jas.-116-
1
May 20, 19
C. P. Janes & Co.,
Columbus, O.
Gentlemen:-We are about to begin a produce commission business in this city and would be pleased to have you consign to us, not later than the first of June, 25 crates of good grade onions to be sold for your account and risk.
This concern is a branch of the well-known firm of J. D. Creager & Co. of this city. As to our responsibility we refer you to our bank, the Farmers and Mechanics.
Our charges for selling are 10 per cent of sales.
Yours truly,
Creager Commission Co.,
per E. C. Mills.

Reconciliation of Bank Balance. — The balance in the bank on any given date, as shown by the pass book when written up as of that date, or by the bank statement, will agree with the check book balance only when all checks issued prior to the balancing of the check book, and the writing up of the pass book, have been presented at the bank, and either certified or paid. This will rarely occur in a going business, and consequently there will generally be a difference between the two balances, which should be adjusted in the check book. This is done by adding to the check book balance the amount of the outstanding checks, as shown by the vouchers returned with the pass book or statement. These checks should be listed in detail on the check book stub. This is called *reconciliation of bank balance.* The check book balance is the true balance, and is the amount to be carried forward in the check book.

RECONCILIATION OF BANK BALANCE

July	31	Total deposits	10205	94
		Total checks	6009	48
		True bank balance	4196	46
		CHECKS OUT		
		Nos.		
		352 103.63		
		361 66.37		
		365 90.04		
		369 283.69	543	73
		Bank's balance	4740	19
19—				
Aug.	1	True balance	4196	46

PRELIMINARY WORK

JULY 1, 19—

You have formed a partnership, under the name of E. H. Reed & Co., with Ellis H. Reed, who has been engaged in the Country Produce and General Merchandising business, at 312 South St., your city.

You are to invest $5000 cash, and also a shipment to Thos. W. Bowen & Co., Dover, No. 3, valued at $1955, making a total investment of $6955. Ellis H. Reed owns the building at 312 South St., valued at $9500. He transfers this property, by deed, to E. H. Reed & Co. He also owns two horses and a delivery wagon, valued at $325, and office furniture and fixtures, valued at $250. He has on hand the following goods: 600 bu. potatoes, invoiced at 60¢ per bu.; 140 bbl. apples, invoiced at $3.50 per bbl.; 11 boxes cheese, 605 lb., invoiced at 11¢ per lb.

The following personal balances from customers are due Ellis H. Reed: Theodore Crosby & Co., $129.33; A. W. Noone & Co., $528.44; Public Market Co., $244.60; Geo. H. Tucker & Co., $204.13; City Hotel Co., $250.45.

Ellis H. Reed owes the following balances: Russell & Birkett, $426.45; Curtice, Olney & Co., $1326.40; Lutz Bros., $714.50; Gillette & Hennigan, $541.20; and a note in favor of the Fischer Flour Co., St. Louis, dated June 16 at 30 days, $845.27.

The new firm assumes all the liabilities of Ellis H. Reed, and takes over his resources, as listed above. Each partner is to receive interest at six per cent on his net investment, after which the gains and losses are to be divided equally.

The form on page 201 shows the journal and cash book entries for the investments of Ellis H. Reed and yourself which you will now make.

Enter the shipment to Thos. W. Bowen & Co., Dover, No. 3, $1955, in the shipment ledger. Write for explanation, *shipped June 24, Investment of (Student).*

No. A 1 Take your investment, $5000 cash, from your voucher pad, and place it in Cash Drawer.

Prepare a circular letter, soliciting shipments of country produce or general merchandise, and mail a copy to each of the following concerns: Rice & Pond, Georgetown; Edwin Mason & Co., Milford; Chas. Hunter & Co., Northboro (all in your State); Fischer Flour Co., St. Louis, Mo.; Iowa Packing Co., Des Moines, Iowa.

The following is a form of circular letter:

FORM OF CIRCULAR LETTER

Albany, N. Y., July 1, 1919.

Mr. Geo. H. Alling,
Utica, N. Y.

Dear Sir:

You will be interested to know that we have opened at 348 Central St., this city, a large and well equipped store for the handling of every variety of country produce -- butter, eggs, fruit, vegetables and canned goods, to be sold on commission. As it is also our purpose to conduct a general merchandising business, we are prepared to buy anything in the above line and will offer you the highest market rates.

We handle shipments of first-class goods only, and are prepared to make cash advances for all staple products on receipt of bill of lading. We render accounts sales and send cash remittances as soon as consignments are disposed of. Our charges are 5% of sales and 1% for storage and insurance.

By permission, the First National Bank and the Empire Storage Company of this city will indorse our financial standing.

Any business that you may favor us with will receive prompt attention.

Very respectfully yours,

The Geo. H. White Commission Co.

Posting. — The following are the general ledger accounts to be used in the Commission set:

Cash, Notes Receivable, Theodore Crosby & Co., A. W. Noone & Co., Public Market Co., Geo. H. Tucker & Co., City Hotel Co., Thos. Varick & Co., E. B. Dean & Co., National Market Co., D. W. Perry & Co., J. M. Marsh & Co., Consignments, Shipments, Merchandise Inventory, Real Estate, Horses and Wagons, Furniture and Fixtures, Insurance Unexpired, Office Supplies, Notes Payable, Russell & Birkett, Curtice Olney & Co., Lutz Bros., Gillette & Hennigan, Dock & Coal Co., Western N. Y. Preserving Co., Chas. Hunter & Co., E. H. Reed, Student, Purchases, Freight-In, Sales, Commission, Charges, Discount on Purchases, Discount on Sales, Discount on Notes Receivable, Salaries, Delivery Expense, General Expense, Profit and Loss.

JOURNAL ENTRY

JULY 1, 19—

	Ellis H. Reed and (student's name) have this day entered into a partnership to carry on, at 312 South St., a Commission and General Merchandising business, under the name of E. H. Reed & Co.							
	Each partner is to receive six per cent interest on his net investment, after which the gains and losses shall be divided equally.							
	Ellis H. Reed invests the following resources and the firm assumes the following liabilities:							
	Real Estate			9500				
	Mdse. Inventory			916	55			
	Horses and Wagons			325				
	Furniture and Fixtures			250				
	Theodore Crosby & Co.			129	33			
	A. W. Noone & Co.			528	44			
	Public Market			244	60			
	Geo. H. Tucker & Co.			204	13			
	City Hotel Co.			250	45			
	Russell & Birkett					426	45	
	Curtice, Olney & Co.					1326	40	
	Lutz Bros.					714	50	
	Gillette & Hennigan					541	20	
	Notes Payable					845	27	
	Ellis H. Reed					8494	68	
	(Student's name) invests cash, $5000, and a shipment, #3, to Thos. W. Bowen & Co., Dover, valued at $1955.							
C. B.	Cash			5000				
	Shipments			1955				
	(Student)					6955		

CASH BOOK ENTRY

19— July	1	√	(Student's name)	Investment	5000

Open accounts in the general ledger for accounts on page 200, allowing four accounts to a page.

It is recommended that the posting be done daily.

The accounts with customers and creditors are kept in the general ledger, therefore there will be no controlling accounts kept with accounts receivable or accounts payable. As heretofore explained, the only controlling accounts illustrated in this set are Shipments and Consignments.

Ledger Index. — Prepare an index of the ledger on the first two pages of the book, these having been specially ruled for the purpose. You will note that each page is divided into two equal parts by a vertical red line. Write a capital A in the middle of the first part at the top of the left-hand side. In middle of the ninth line below this, write B. On the ninth line below B, write C, and so on, going from the bottom of the left-hand part to the top of the right-hand portion of the page, and then to the next page, until every letter of the alphabet has been assigned a space. Assign only one space to each of the following groups: H—I—J, P—Q, U—V, X—Y—Z.

Write the names of all the accounts in the ledger in their proper alphabetic place in the index, and after each account write the page of the ledger on which it appears. In personal accounts, the initial letter of the surname or of the first principal word determines its place in the index.

JULY 10

Order from Gillette & Hennigan, Baltimore, Md., at their best cash discount, 20 boxes St. John River oranges, 50 boxes lemons, 12 doz. pineapples.

The above and following letters should be very carefully written and submitted to your teacher for approval. An impression of each letter may be taken in a letter book if such a book is used. Ask your teacher to show you the method of taking an impression in a letter book. If letters are copied in this way, prepare a vowel index as shown in the illustration on page 198, and index your letters, using the first vowel in the surname of the person or first name of the firm as a guide for position. Inclose the letter in a properly addressed envelope, and place in Vouchers for Others.

Order from Russell & Birkett, Penn Yan, N. Y., on account, 30 days, 50 bbl. XXX family flour, 50 bbl. XX family flour, 25 bbl. pastry flour.

Order from Curtice, Olney & Co., Rome, N. Y., 36 cases, 72 doz., canned sugar corn; 72 cases, 144 doz., canned tomatoes. Order these sent by Interstate Transportation Company, fast freight, and request them to draw on you at 30 days for the amount of the bill.

Order from Lutz Bros., Allegheny, Pa., 5 bbl. sour pickles, 4 bbl. sweet pickles, 25 cases, 50 doz., Diamond ketchup, 16 oz. Order the goods shipped by Interstate Transportation Company, and request 60 days' credit.

TRANSACTIONS

JULY 16

No. 1 This advice of shipment accompanies a lot of goods received from Edwin Mason & Co., of Milford, your state, to be sold on their account and risk.

Take from your package of business forms the pad of loose-leaf consignment sales blanks, and in the square at the top write the stencil mark of this consignment, which will be M-1 (see form of loose-leaf sales blank, page 190). Fill out the consignment sales sheet with the date of shipment, name of consignor, etc. Opposite *Received* write the articles as shown by the advice received with the goods. (See form, page 190.)

Paste the gummed edge of the loose leaf to the back of the cover of the consignment ledger. Place the advice of shipment in your Voucher File.

It will be noticed that the freight and cartage charges on the above consignment were not paid at the time the goods were received. This is the practice in cities where truck or dray companies are established, and also, as regards freight charges, when proper arrangements have been made with the railroad companies. The freight or drayage bills are brought in daily, weekly, or monthly, and one check is drawn for the total amount.

In business when goods are shipped by freight, the shipper usually sends the bill of lading with invoice or advice of shipment to the consignee. If a shipment has been made under a straight bill of lading, the railroad company will notify the consignee, usually by post card, when the goods have arrived and are ready for delivery, and the amount of freight charges, if any, on the shipment. As a rule, this notice must be presented at the freight office and the freight charges paid, before the goods can be taken away. When freight charges are paid, two receipts are given; one by the railroad company for the money, and the other by the consignee or his representative for the goods. These receipts are made out by the railroad company after the arrival of the goods and before the notice is sent to the consignee. The receipts

contain the date on which they are made out; date and number of waybill; the car number and initials; the weight, rate and amount, and the advance charges, if any. The procedure when goods are shipped under an order bill of lading will be explained later.

No. 2 This advice of shipment is received with goods mentioned from the Western New York Preserving Company, Springville, N. Y., and should be entered precisely as the lot received in No. 1 (W-1). Paste the gummed edge on the back of M-1.

No. 3 This advice has been received from Rice & Pond, accompanying goods as mentioned.

No. 4 This invoice is for goods ordered by you July 10, from Gillette & Hennigan, and should be recorded in the purchases journal (Blank No. 1), as in previous work. Verify the calculations and O.K. the same. The receiving clerk has already O.K.'d the quantities. Verify all calculations and O.K. all invoices, after which record the merchandise invoices in the purchases journal, and file the other invoices or bills in the Voucher File.

No. 5 This invoice from E. R. Coburn & Co. is for books and other office supplies.

Make no entry at present. The amount will be found in your cash items to be paid at the end of the day, and entered at that time.

No. 6 This invoice from Lutz Bros. is for goods ordered by you July 10. (See No. 4.)

Sales from Blotter. — In this month's work a large number of sales will be made to local persons, whose orders are given verbally and are entered in an order book or blotter. You will receive among your incoming vouchers a list of these sales each day, and will make out the bills as usual In entering these sales in the sales book be sure that the stencil mark of the consignment appears opposite each item sold from that consignment, and that these items are carried to the loose-leaf consignment ledger from the Consignments column of the sales book.

A blotter was originally a kind of day book in which all transactions — purchases, sales, receipts and disbursements of cash, etc. — were first entered in memorandum form and from which the entries were transferred to the main books. Sometimes it is used for orders only, in which case it is equivalent to an order book. The blotter is generally made of heavy, coarse paper, and the records are made in pencil.

No. 7 These sales have been made as per blotter, and should be entered in the sales book (see model, page 193). Be sure that the cash sale is entered in the cash book, and checked off both in cash book and in sales book (see explanation, page 194). Place the voucher in Voucher File. Make out bills for all sales as per blotter.

In this month's work an account will be kept with freight, and all amounts paid for freight on your own merchandise will be charged to Freight In account.

The items from the Consignments columns of the cash book and from the sales book should be carried to the loose-leaf consignment ledger at the close of each day, as it is necessary that they appear there before an account sales can be rendered to the consignor; and it is also necessary that the items in the Shipments columns of the cash book be carried to the shipment ledger in the same manner, as they must appear there before the closing of any accounts in the shipment ledger. If there are any entries to shipments or consignments in the journal, these should also be posted at the end of each day.

The following is an illustration of the sales book with the first charge for July 16, showing the method of entering sales from consignments and regular merchandise sales together. The check marks show that the amount of merchandise sold from the consignment has been transferred to the consignment ledger.

COMMISSION SALES BOOK

JULY 16, 19—

					INVOICE	CONSTS. CR.	SALES. CR.
		City Hotel Co.	a/c	30 days			
M–1	√	5 cases Eggs	120 dz.	.22	26 40		
M–1	√	2 tubs Butter	120 lb.	.24	28 80	55 20	
		2 boxes Lemons		4.75	9 50		9 50
					64 70		

No. 8 This is an order on the cashier to pay various bills. Pay the items in currency.

Enter in your cash book, debiting the proper accounts (see model, page 197). Allow a line for each charge for freight paid on consignments. (Place the money in Cash Paid Out.) Post all freight charges on consignments from the cash book to the proper consignment in the loose-leaf consignment ledger, placing the amount opposite the printed word *Freight.* Remember to debit *Freight In* in cash book for all freight paid on your own merchandise.

No. 9 This account sales and draft are received from Thos. W. Bowen & Co., and as they have been notified of the change in your business, they have made the draft payable to E. H. Reed & Co.

Enter in your cash book, crediting Shipment to Thos. W. Bowen & Co., No. 3, for the amount of the net proceeds, and carrying the amount of net proceeds to the credit of shipment No. 3, in shipment ledger. There has been a gain on this shipment. Close the shipment in shipment ledger by entering the amount of the gain in the debit column, the word *gain* in the explanation column, and the date in the date column. Make proper use of red ink as in closing other ledger accounts. (See page 192.)

No. 10 This check has been received from Theodore Crosby & Co., in full of account, and is indorsed by Ellis H. Reed to E. H. Reed & Co.

No. 11 Open an account with the Traders Bank, and deposit $4900 cash, the check of Theodore Crosby & Co., and the draft received from Thos. W. Bowen & Co. Copy the items from your deposit ticket on the left-hand stub of your check book, and extend the total into the money column.

It is a good practice, as well as the usual custom, to deposit checks on the day they are received or on the following day. If a check is not deposited within a reasonable time, usually considered to be twenty-four hours, and the bank on which it is drawn should fail, the maker of the check would be discharged from loss occasioned by the delay of the depositor.

You will now prove the cash and post the entries in your books in accordance with previous instructions. (In proving cash, include cash on hand and in bank.)

JULY 17

No. 12 This invoice has been received from Curtice-Olney & Co.

No. 13 This advice of shipment accompanies goods received from Fischer Flour Company, and incloses a draft at ten days' sight for $300, which you will accept, payable at Traders Bank, and place in Notes Payable File.

Enter the consignment on a loose-leaf sales leaf, and under *Advances* write the amount of the draft, $300. Make a journal entry, debiting *Consignments* and crediting *Notes payable* for the amount of the draft, as follows:

	Consignments	Accepted Fischer Flour Co.'s draft at 10 days, on account of goods received to be sold on their account and risk.	300		
	Notes Payable				300

No. 14 This order is received from Thomas Varick & Co. Take the canned goods from lot W-1 — peas, $1.30; corn, $1.10; tomatoes, $1.25; and the balance of the order from your own goods — apples, $3.75; potatoes, 75¢. (Enter in the sales book, as per model, page 193.) Do not forget the stencil mark.

No. 15 This letter from F. H. Larkin & Co. solicits a shipment from you.

Make a shipment invoice — apples, $3.50; potatoes, 60¢ — and enter in your shipment ledger (see form, page 192). Pay for insurance, 75¢, currency, and enter in the cash book.

In business a straight bill of lading would, of course, be made out for a shipment of this kind, but in view of the practice which you have had in the introductory work, the bills of lading will be omitted in this set.

The following is the form of the shipment ledger as it will appear after this entry has been made, and after the cash paid for insurance has been posted from the Shipment column of the cash book at the close of the day. (Allow three lines for the closing entries.)

SHIPMENT LEDGER

INDEX, CHECK, AND FOLIO	JULY 16, 19—	MDSE.	LEDGER ACCOUNTS					
			Debits		Credits		Folio and Explanation	Date
	Thos. W. Bowen & Co., #3, Dover,		1955					19—
	Shipped June 24,				2058	62	C. 2	
	Investment of (Student's name).		*103*	*62*			*Gain*	*July* 16
	17		2058	62	2058	62		
	F. H. Larkin & Co., Northboro,							
	50 bbl. Apples, 3.50	175	295					
	200 bu. Potatoes 60¢	120		75			C. 3	17

No. 16 These sales have been made from the blotter, and should be entered in the sales book. The cash should be entered in the cash book. (See transaction No. 7.)

The small cash sale of merchandise, $6, is not entered in your sales book, but posted direct to the credit of Sales from the cash book. In every business there will be more or less of these small sales, even though it be strictly wholesale business, for it is quite a common practice among business houses to send in friends with a request that, as a favor, a small quantity of goods be sold them at wholesale prices, and it is customary for a wholesale house to comply with such a request. If such sales are made from consignments, it is necessary that they be entered in the sales book, but when made from your own goods, it is customary to enter them in the cash book only, and post to Sales account direct from that book. If many such sales are occurring, it is well to have a special column for merchandise sales in the cash book. In this business, as there are only a few sales of this nature, they will be carried to the General column of the cash book, and Sales account credited from that book. (See entries of the 11th and 27th in cash book, page 196.)

No. 17 This invoice from Russell & Birkett is for goods ordered by you July 10.

No. 18 These items should be entered in the cash book, and the item of $55 also entered in the consignment ledger, opposite *Freight, Cartage, etc.*, on the loose leaf for Fischer Flour Co.'s consignment. Make checks for all bills, except the one of $10 for care of horses, which pay in cash.

No. 19 This check is received with an order from A. W. Noone & Co. Make cash book entry, but carry the order over in Voucher File until the 18th.

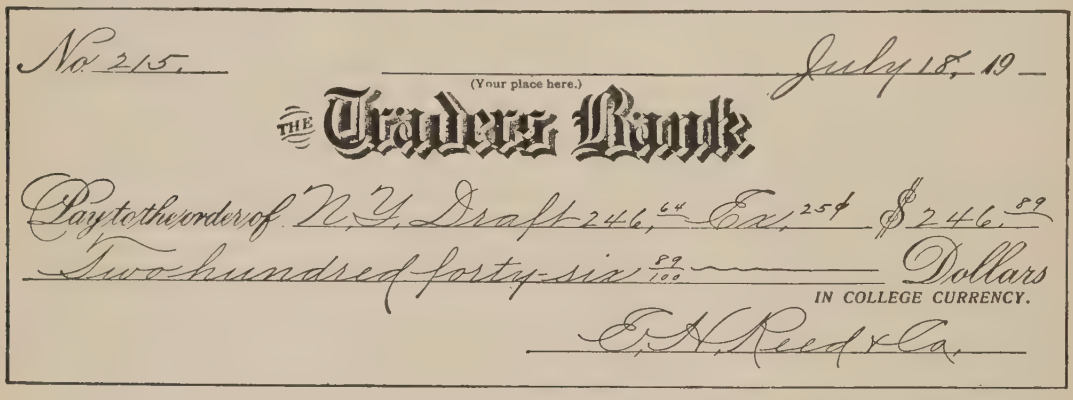
No. 20 Deposit checks of W. B. Alden & Co. and A. W. Noone & Co. (Prove the cash.)

July 18

No. 21 Render an account sales to Edwin Mason & Co., and inclose a New York draft for the amount of the net proceeds.

Turn to your consignment ledger and see that all sales from this consignment, M-1, have been transferred from the sales book to the second, or sales, column of the loose leaf stenciled M-1 in the consignment ledger. Foot this second, or sales, column, and place the amount at the bottom of the page. Find the commission at 5%, and write in the first column of the loose leaf the amount $13.34. Take 1% of the sales for insurance, storage, etc., and place it opposite the word *Charges*, under which head insurance, storage, etc., will be kept in the ledger. Subtract the sum of the amounts in the first column from the footing of the second column, and place the difference opposite *Net Proceeds* in the first column of the loose leaf. (See model, page 190.) If you have made no mistake in addition or subtraction, the account will now balance. To show this, rule and foot. The amount of the net proceeds is to be sent to E. Mason & Co. by New York draft, the cost of which you will pay. Make out a check for the amount of the net proceeds of the consignment plus 25 cents.

The following is a form of check to be used in the purchase of New York drafts:


No. 215. July 18, 19—

(Your place here.)

THE Traders Bank

Pay to the order of N. Y. Draft 246.44 Ex. .25 $246.69

Two hundred forty-six 69/100 Dollars

IN COLLEGE CURRENCY.

E. H. Reed & Co.

Indorse the draft (Voucher No. 21) to E. Mason & Co.

Some business houses have the draft made payable to the order of the person to whom it is sent, but it is better to make the draft payable to your own order and indorse it to the person to whom it is to be sent, as the draft will then show on its face the name of the party who sent it.

Enter in your account sales register the information called for by the columns of that book (see pages 194 and 195), taking the amounts from the loose leaf.

Be sure to enter the amount of the draft in the proper column.

The form on page 190 shows the loose leaf of E. Mason & Co.'s consignment No. 1 as it should appear at the present time.

Enter in your cash book, debiting *Const. Mason & Co. No. 1* for the amount of the draft, and *General Expense* for the cost of the draft, 25¢. If a large number of New York drafts are sent, so that there would be a considerable amount paid for exchange, an account with collection and exchange should be kept, but in this business it is not thought advisable to open such an account, and *General Expense* is debited for the exchange on drafts.

Detach the loose leaf at the perforated line from the ledger, and make a copy to keep on file for reference. Place the New York draft and the loose leaf (M-1) in an envelope properly addressed, and place in Vouchers for Others.

As the consignment is now closed, and you have sent the net proceeds to the consignor, it is evident that there is no necessity for any record of this lot in your books. If your school is not provided with the proper letter press, then the entry in the account sales register will be a sufficient record of the transaction.

No. 22 Render an account sales of lot R-1 received from Rice & Pond and remit proceeds by check.

No. 23 Memorandum of shipment from Edwin Mason & Co. The stencil will be M-2.

No. 24 Memorandum of goods consigned to you by Rice & Pond.

No. 25 Letter from Chas. Hunter & Co.

No. 26 Fill this order from D. W. Perry & Co., taking 3 X flour, $5.25, and Pastry flour, $5.50, from your own merchandise; C. E. peas, $1.30; E. J. peas, $1.50; beans, $1.20, from lot W-1. Draw a draft at 60 days from the date of the bill, and present it to your teacher for acceptance. He will accept the draft for D. W. Perry & Co. Make the proper journal entry, and place the acceptance in the Cash Drawer.

No. 27 Take order No. 19, A. W. Noone & Co., from your Voucher File and make a bill of the goods called for, taking 20 bbl. Redcloud at $4.75 per bbl. and 20 bbl. Snowflake at $4.90 per bbl. from Fischer Flour Co.'s consignment No. 1, and 10 bbl. apples at $3.75 per bbl. from E. Mason & Co.'s consignment No. 2.

No. 28 Sales from blotter.

No. 29 Cashier's payments. Make out checks for the amounts required.

Carry all consignment sales from the sales book to the consignment ledger, and all consignment and shipment items from the cash book to the shipment and consignment ledgers.

Prove the cash and post as heretofore. Open new debtor accounts on page —, allowing one fourth of a page to each.

JULY 19

No. 30 Render an account sales of lot W-1, and place the net proceeds to the credit of the Western New York Preserving Company, subject to sight draft. In this case no check has been sent for the net proceeds, but an account will be opened with the Western New York Preserving Company in your general ledger. Write *Placed to credit* opposite *Net Proceeds* on the loose leaf. Enter in your account sales register as usual, and write the amount to be credited in the proper column. The net proceeds will be posted later from the account sales register.

No. 31 Check from the Public Market Co., to pay the balance due to July 1.

No. 32 Check from G. H. Tucker & Co., to pay the balance due to July 1.

It is not necessary to send a receipt for a check, since the check itself when paid by the bank will be canceled and returned to the maker, showing that the amount has been paid to the person in whose favor it was made. It is customary in some business houses to acknowledge the receipt of every remittance in some form. If a statement or invoice accompanies the remittance, it could be receipted and returned. If the statement or invoice is not received with the remittance, an acknowledgment should be sent.

No. 33 The Traders Bank presents Chas. Hunter & Co.'s draft at sight. Accept it by writing *Accepted, July 19, 19—, payable at Traders Bank* across the face, and place in Vouchers for Others. In business, the draft would be returned to the bank, and the amount would be deducted from your balance on deposit, and the draft would come back to you when your vouchers are returned to you by your bank. Make an entry on the stub of your check book immediately below the record for the last check as follows: *" 7/19/—, Chas. Hunter & Co.'s dft. 300,"* placing the amount in the money column to be added with the checks. Enter in the cash book, debiting *Const. Hunter & Co. No. 1.*

Some banks, in a case like the above, or where a note or time draft is made payable at the bank, would require the drawee of the draft, or the maker of the note, to meet the obligation by check.

No. 34 Sales for the day as per blotter.

No. 35 Cashier's payment for the day.

No. 36 This invoice has been received from Dock & Coal Co., for your order given to the salesman of the house, who has recently called upon you.

Prove the cash and post. Open new creditor accounts on page —, allowing one fourth of page to each.

JULY 20

No. 37 Ship to J. M. Marsh & Co., Boston, Mass., to be sold on commission, 25 bx. cheese, 2625 lb., at 12¢; 25 tubs butter, 1500 lb., at 21¢. Pay insurance, $1.50, in cash.

No. 38 Ship to W. A. Simonds & Co., to be sold on commission, 1000 bu. potatoes at 62½¢, and pay for insurance, $1.25.

No. 39 Draw at 30 days, on J. M. Marsh & Co., for $300, and place the draft in Traders Bank for collection. Make journal entry, crediting *Shipments* and debiting *Notes Receivable*, since it is understood that Marsh & Co. will accept the draft; also credit Shipment to J. M. Marsh & Co. in shipment ledger for $300. Make no entry on the stub of the check book. An entry will be made in the back part of your bank pass book by the teller under the head of collections. When the draft is collected you will receive credit for it the same as for a deposit, and you will then enter it on the stub of the check book.

No. 40. Memorandum of advice from the Iowa Packing Co.

No. 41. Fill this order from Fischer Flour Co.'s consignment — Redcloud, $4.75; Snowflake, $4.90.

No. 42 Sales from blotter.

No. 43 Render an account sales of the Fischer Flour Co.'s consignment, and send them a check for the net proceeds, less draft for $300 accepted July 17.

No. 44 Invoice from Curtice-Olney & Co.

No. 45 Invoice from Russell & Birkett.

No. 46 Cashier's payments.

No. 47 Check from the City Hotel Co., for the amount due July 1, less 5%. (See model in the cash book, page 196.)

No. 48 Deposit all cash and checks on hand.

Prove your cash, and post. Allow one fourth of a page for new accounts.

JULY 23

No. 49 This check has been received in payment of bill of July 16, less 3% on the part of the sale which was made from your own merchandise. See if the check is for the correct amount, and if so, enter it in your cash book. Enter in *Discount on Sales* column the difference between the amount of the check and the amount of the bill.

No. 50 This check is in payment of bill of the 17th, less 3% on that part which was taken from your own merchandise. (Enter as in No. 49.)

No. 51 Memorandum of shipment by the Fischer Flour Co., under an order bill of lading, with the accompanying sight draft for $500, which is presented by your bank. Accept the sight draft and make entry on stub of check book, similar to that for transaction No. 33. Enter in your cash book, debiting *Const. Fischer No. 2 advance payment.* Enter the goods on a loose leaf, with the stencil mark *F-2.* Opposite *Advances,* in the debit column, write the amount of the sight draft you have accepted.

For an explanation and illustration of the order bill of lading, see Introductory Course, pages 94–96. Note carefully the difference between the form and use of the order bill of lading and the straight bill.

When goods are shipped under an order bill of lading, the usual notice of the arrival of the goods is sent and the receipt forms are made out by the railroad company, but the goods are delivered only on presentation of the bill of lading, properly indorsed, and, of course, the payment of freight charges, if any.

In No. 51, after you had accepted the draft, which in this case was equivalent to issuing your check for the amount, the bank would indorse the bill of lading to E. H. Reed & Co., which would give you title to the goods, and enable you to get them from the railroad company.

No. 52 Memorandum from Rice & Pond.

No. 53 Render an account sales to Rice & Pond for consignment No. 2, which is sold out, and send them a check for the net proceeds.

Close the consignment in your consignment ledger, and remove the leaf from the book.

No. 54 This draft on you by the Western New York Preserving Co. is presented by the bank. Accept the draft.

No. 55 Fill this order from Theo. Crosby & Co., taking apples, $3.75 per bbl., butter, 24¢ per lb., from Mason's consignment No. 2, and XXX flour, $5.25 per bbl., XX flour, $5 per bbl., Pastry flour, $5.50 per bbl., from your own merchandise. Do not fail to write the stencil number of the consignment opposite the items in the sales book that are taken from Mason's consignment, and enter these amounts on the credit side of the loose leaf in the consignment ledger. (Calculate butter at 60 lb. per tub.)

No. 56 Sales of the day from the blotter.

No. 57 Cashier's payments for the day. Be careful in calculating your discounts.

Prove the cash, and post.

July 24

No. 58 Invoice from Dock & Coal Co.

No. 59 Check from F. H. Larkin & Co., with an account sales of shipment sent them on the 17th. Enter in your cash book, placing the amount in the Shipments column, and post to shipment ledger in credit column. Close this shipment account.

No. 60 Check from the National Market Co. in payment of bills of July 17 and 18, less 3% on the part of the bills which have been sold from your own merchandise.

No. 61 Take from your Cash Drawer, D. W. Perry & Co.'s acceptance at sixty days from July 18, for $220.25, and have it discounted at the bank. (Prepare discount slip as usual.) Notice that the draft is not discounted for 60 days, but for the time it has to run. See that the net proceeds are placed to your credit in your bank pass book. Enter in your cash book and on the left-hand stub of your check book.

No. 62 Memorandum of goods received, freight paid, from the Western New York Preserving Co.

No. 63 Render an account sales of consignment received from the Iowa Packing Co., and remit net proceeds by New York draft, for which you will pay 25¢ (see No. 21). Make

the check for amount of draft and exchange. Indorse the draft properly, and inclose it with the account sales in an envelope addressed to the Iowa Packing Co.

No. 64. Sales as per blotter.

No. 65. Ship to Warren Jordan, New York, to be sold on commission, 150 bbl. apples at $2.75, 800 bu. potatoes at 55¢.

No. 66 Cashier's payments for the day.

Prove the cash, and post.

JULY 25

No. 67 Memorandum of shipment by the Iowa Packing Co., under an order bill of lading, with the accompanying sight draft, which is presented by the Traders Bank (see No. 54).

No. 68 Memorandum of shipment from Edwin Mason & Co. (M-3).

No. 69 Send 500 bu. potatoes at 55¢, and 10 tubs butter at 21¢, to F. H. Larkin & Co., Northboro, to be sold on commission. Take these goods from your own merchandise.

No. 70 Deposit all checks on hand.

No. 71 Order received from D. W. Perry & Co. Fill order as usual, taking apples at $3.50 and butter at 22¢ from H-1; plums at $1.50 and peaches at $1.75 from W-2.

No. 72 Sales from blotter.

No. 73 Cashier's payments for the day. Make out a check for the bill for building stable, and pay the freight bills in cash. Do not forget to charge each consignment and each shipment with its freight bill. To what account would you charge the check given for building the stable?

No. 74 Render an account sales of Edwin Mason & Co.'s consignment No. 2, and send them the net proceeds by New York draft. Make out a check for the amount of the draft and 50¢ exchange.

Prove the cash, and post.

JULY 26

No. 75 Invoice from Gillette & Hennigan.

No. 76 Fill D. W. Perry & Co.'s order, taking oranges at $6, lemons at $4.75, pineapples at $1.80, from your own merchandise; plums at $1.50, cherries at $1.50, from W-2.

No. 77 This order is received from G. H. Tucker & Co., and, as requested, you will draw a sight draft for the amount of the bill. Fill the order, less 3%, taking goods from your own merchandise — pineapples, $1.80; lemons, $4.75; cheese, 15¢; ketchup, $2.50.

Since the sale is, in effect, for cash, you allow them a discount of 3%. Draw the draft and place it in your Cash Drawer for deposit at the close of the day with other drafts and checks received. Enter the amount in your cash book the same as though you had received a check, and check off the debit entry in the sales book and the credit entry in the cash book. Deduct the discount in the sales book, and extend the net amount in the merchandise column.

No. 78 Memorandum of sundry small sales made from your own merchandise (see No. 16).

No. 79 Letter from Russell & Birkett, inclosing a draft. Accept this draft.

No. 80 Check from the City Hotel Co. in payment of bills of July 16 and 17.

No. 81 Cashier's payment. Pay the freight on Gillette & Hennigan's invoice in cash.

No. 82 Deposit sight draft of G. H. Tucker & Co. and check of City Hotel Co. Enter the sight draft on your deposit slip under *Checks*, with the explanation, *Sight draft*, opposite the amount.

The acceptance of the sight draft on G. H. Tucker & Co. by the bank as a deposit was by agreement with the cashier. The draft is treated as a check, and if not paid will be charged back to you by the bank.

This is not a common practice, but where the depositor is responsible and his account is satisfactory, some banks will extend this courtesy.

Prove the cash, and post.

JULY 27

No. 83 Return 10 tubs of butter received from Chas. Hunter & Co., as it is found upon examination to be unfit for your trade. This transaction requires an entry in your consignment ledger. Under *Sales* write *10 tubs butter returned, 600 lb.* Write a letter to Hunter & Co., telling them why the goods have been returned.

No. 84 Render an account sales to Rice & Pond for consignment No. 3. Send them a check for the net proceeds.

No. 85 Sales from blotter.

No. 86 Cashier's payments. Pay these amounts in currency.

No. 87 Check from A. W. Noone & Co. for invoice of the 18th inst.

No. 88 Check from E. B. Dean & Co., in payment of bill of the 17th, less 3% discount on that part of the bill taken from your own goods.

No. 89 Render an account sales to Chas. Hunter & Co., and place the net proceeds to their credit. Enter in Packages Returned column of the account sales register the 10 tubs butter returned July 27.

No. 90 Account sales of shipment to J. M. Marsh & Co.

No. 91 An account sales from W. A. Simonds & Co., New York, with cashier's check for your net proceeds. A cashier's check answers the same purpose as a bank draft. Note closely the form of the check.

No. 92 Your acceptance of July 17, favor Fischer Flour Co., is due this day at Traders Bank.

No. 93 Deposit all checks and cash on hand. Prove the cash, and post all unchecked original entries. Before proceeding further, turn to pages 189 and 199 and carefully read the explanations given there of the various books used in this set.

Closing Books of Original Entry. — Close cash book, sales book, purchases journal, shipment ledger, and account sales register in accordance with the models previously described.

Final Posting. — You will now post to the general ledger the footings of the special columns of your books of original entry in accordance with the following instructions.

Cash Book. — Debit Side. Post the total of the Net Receipts column to the debit of Cash; the total of the Discount on Sales column to the debit of Discount on Sales; the total of the Shipments column to the credit of Shipments; the individual items in the Net Receipts column should be posted to the credit of the individual accounts. The total of the Sundry Dr. column is checked and not posted.

On the Credit Side of cash book post the footing of the Net Payments column to the credit of the Cash account; post the footing of the Discount on Purchases column to the credit of Discount on Purchases; post the Shipments column to the debit of Shipments; post the Consignments column to the debit of Consignments; the individual items in the Net Payments column will be posted to the debit of the individual accounts. The total of the Sundry Cr. column is checked and not posted.

Sales Book. — Post the footing of Sales from Consignments column to the credit of Consignments; post the footing of the Sales column to the credit of Sales; post the individual items to the debit of the individual accounts.

Purchases Journal. — Post the footing to the debit of Purchases; post the several items to the credit of the respective accounts.

WARD & GRAY

PROFIT AND LOSS STATEMENT, JULY 1–JULY 31, 19—

Shipments (net proceeds received)		$2800.	
Deduct:			
Net Cost of Shipments:			
Goods shipped	$4115.42		
Less:			
Cost of Goods in hands of Consignees 7/31	1445.75	2669.67	
Profit on Shipments			$130.33
Merchandise (net sales)		$4461.27	
Less:			
Cost of Sales:			
Inventory	$2400.		
Purchases	4444.30		
Freight-In.	115.30		
Total Cost	$6959.60		
Less:			
Inventory 7/31/19—	2747.38	4212.22	
Gross Profit on Sales			249.05
Commissions earned		$122.47	
Charges earned		23.71	146.18
Gross Profit from Operations			$525.56
Deduct:			
Operating Expenses:			
Salaries		$60.	
Insurance		4.32	
Office Supplies used		5.00	
Depreciation on:			
Real Estate		150.	
Furniture and Fixtures		25.	
Horse and Wagons		25.	269.32
Net Profit from Operations			$256.24
Add:			
Other Income:			
Discount on Purchases			365.68
Total Income			$621.92
Deduct:			
Other Charges:			
Discount on Sales		$150.	
Discount on Notes		2.40	152.40
Net Profit — July 1 to July 31, 19—			$469.52
Distributed as follows:			
Interest on Capital			
Geo. Ward	$13.26		
A. H. Gray	12.71	$25.97	
Geo. Ward 1/2 net balance	$221.78		
A. H. Gray 1/2 net balance	221.77	443.55	$469.52

Shipment Ledger. — Post the footing of the Mdse. column to the debit of Shipments and to the credit of Purchases.

Account Sales Register. — Post the footing of the Amount to be Posted column to the debit of Consignments, and the Commission and Charges amounts to the credit of their respective accounts.

Your posting is now completed, but you should check back, to be certain that there are no errors or omissions.

Take a trial balance and submit it to your teacher for approval.

No. 94 Bank voucher slip. Foot your pass book, deduct the amount of the slip, with proper explanation, using red ink, and balance and rule up the book.

Take your checks from the file and compare them with the slip, place a check mark against each item as it is found to agree with the check. Return the unpaid checks to the file.

Cancel the paid checks by writing *Paid* across the face of each, and then compare them with the amounts on the check stubs, checking each amount for which you have a canceled voucher. The unchecked amounts represent unpaid checks. Place the canceled checks in Voucher File. Reconcile your bank balance. (See Reconciliation of Bank Balance, page 199.)

Instead of writing up the depositor's pass book in detail, as was formerly the general custom, many banks now list the charge items on a strip of paper by means of the adding machine, and enter only the total and the balance in the pass book. Other banks render regular monthly statements to their depositors, the forms of which vary. Some of these statements are in envelope form, and show on the outside: the deposits in detail; dates of same; total credits, including previous balance; total debits; and present balance. The vouchers are inclosed in the envelope, but no detailed statement of them is given. Another form of statement, and one which is much appreciated by depositors, is similar to the monthly statement of business concerns. The charge items are listed in detail and footed under Vouchers, on the left side of the form, and the credits, balance, deposits — dates and amounts — are listed under deposits on the right side. This side also shows the total credits, total debits, and balance. This work is also done on the adding machine, and the vouchers are returned with the statement.

Inventories, July 31, 19—

50 bbl. Apples,	$3.50	16 bx. Lemons,	$4.
94 doz. C. Beans,	1.	5 " Oranges,	5.
7 tubs Butter, 420 lb.,	.21	72 doz. C. Peas,	.85
27 bx. Cheese, 2735 lb.,	.11	3 bbl. S. Pickles,	7.
72 bx. C. Corn,	1.05	3 " Sw. Pickles,	9.
105 bbl. 3X Flour,	4.50	489 bu. Potatoes,	.62½
70 " 2X Flour,	4.25	1 doz. Pineapples,	1.20
55 " Pastry Flour,	4.75	133 " C. Tomatoes,	.95
30 doz. Ketchup,	2.		

Other inventories: Real estate, estimated to be worth $9700; Unearned premium on insurance policy, $45.83; Office supplies on hand, $35; Furniture and fixtures, valued at $225; Horse and wagon, valued at $292.50.

Unsold shipments, valued at cost as shown by the shipment ledger, $1278.10.

Closing the Books

Financial statements will now be prepared and the ledger closed as of July 31. Following is the work required in the order in which it should be done.

1 Profit and Loss Statement, July 1–July 31, 19—. Prepared from the trial balance of July 31 and from above inventories. (Use model form on page 212.)
2 Balance Sheet, July 31, 19—. (Use model form on page 214.)
3 Closing entries, July 31, 19—. (Use model form on page 215.)
4 Post closing entries and balance and rule general ledger accounts.
5 Take a proof trial balance.

WARD & GRAY

BALANCE SHEET, JULY 31, 19—

ASSETS

Current Assets:			
Cash	$1795.60		
Notes Receivable	375.		
Accounts Receivable	3446.48		
Consignments Advances	520.		
Merchandise Inventory	2747.38		
Shipments Inventory	1445.75	$10330.21	
Fixed Assets:			
Real Estate	$7050.		
Horses and Wagons	250.		
Furniture and Fixtures	175.	7475.	
Expense Items Paid in Advance:			
Insurance Unexpired	$45.68		
Office Supplies on Hand	30.	75.68	
			$17880.89

LIABILITIES AND CAPITAL

Current Liabilities:					
Notes Payable			$4000.		
Accounts Payable			8217.37		
Total Liabilities				$12217.37	
Capital:					
Geo. Ward	Net investment	$2652.			
	Interest on capital	13.26			
	1/2 net profit	221.78	$2887.04		
A. H. Gray	Net investment	$2542.00			
	Interest on capital	12.71			
	1/2 net profit	221.77	2776.48	5663.52	
Total Liabilities and Capital					$17880.89

According to agreement, each partner is to receive interest on his net investment at the legal rate. This equalizes in part their investments and also makes it possible to show on the records how much of the net gain as shown by the statement is creditable to the capital itself, and how much to the handling of that capital in the conduct of the business by the firm. Find the interest on E. H. Reed's investment as shown by his account in the ledger for 31 days, the length of time it has been invested in the present business. Find the interest on Student's investment in the same manner. Enter the amounts of these interests on the debit side of the statement as shown in the form. Deduct the sum of the interests from the gain from the business, and the remainder will be the net gain. Divide this gain equally between the partners and close the statement.

Statement of Resources and Liabilities. — Make a statement of resources and liabilities of the business, using the above model as a guide.

The debit side of this statement comprises cash and the various accounts having inventories, followed by Notes Receivable, Accounts Receivable, and Consignments. Accounts Receivable includes all personal accounts showing debit balances.

The credit side of the statement contains the debts due by the firm on notes and on accounts, the latter being designated as Accounts Payable, also the present worth of the partners.

Submit your statements to your teacher for approval before closing the ledger.

Hand your books and papers to the teacher for inspection.

MODEL CLOSING ENTRIES, JULY 31, 19—

Purchases		To close inventory of	2400.	
Inventory		July 1 to Purchases a/c		2400.
Purchases		To transfer into Pur-	115.30	
Freight-In		chases account the cost of freight		115.30
Inventory		To bring on the books	2747.38	
Purchases		the inventory of July 31		2747.38
Sales		To transfer the cost of	4212.22	
Purchases		sales from Purchases account to Sales account		4212.22
Sales		To transfer the gross	249.05	
Profit and Loss		profit on sales to the Profit and Loss Account		249.05
Shipments		To transfer the profit	130.33	
Profit and Loss		on shipments to profit and loss		130.33
Commission		To close into profit and	122.47	
Charges		loss	23.71	
Profit and Loss				146.18
Profit and Loss		To transfer all operating	269.32	
Salaries		expenses to profit and loss		60.
Insurance				4.32
Office Supplies				5.
Real Estate				150.
Horses and Wagons				25.
Furniture and Fixtures				25.
Discount on Purchases		To transfer other income	365.68	
Profit and Loss		to profit and loss		365.68
Profit and Loss		To transfer other charges	152.40	
Discount on Sales		to profit and loss		150.
Discount on Notes				2.40
Profit and Loss		To close profit and loss	469.52	
Interest on Ward &	13.26	to the proprietors' ac-		25.97
Gray's Capital	12.71	counts		
Geo. Ward				221.78
A. H. Gray				221.77

EXERCISES

NOTE. — Accounts sales in these exercises are to be prepared on foolscap paper, properly ruled, and the trial balances and statements on loose journal paper. The forms and dates are to be supplied by the student.

1 Received from Klem & Co., Boston, to be sold on their account, 50 crates Bermuda onions; paid freight and cartage, $5.90; sold 20 crates at $2.60; 30 crates at $2.50; commission, 5%; storage, $2.50. Proceeds credited, subject to sight draft. Render account sales.

2 Received from C. L. Johnson & Company, Charlotte, to be sold on their account, 50 bbl. Baldwin apples, 75 bbl. Greening apples. Paid freight and cartage, $16.32; sold 25 Baldwins at $4 a bbl.; 20 at $4.25; 5 at $4.50; sold 50 Greenings at $4.50; 25 at $4.75; commission, 5%; cold storage, $6.25; cooperage, $1. Proceeds remitted by N. Y. draft, less exchange 50¢. Render an account sales.

3 Shipped to James Goodman & Son, Chicago, to be sold on your account, 40 crates celery at $1.50, freight prepaid, $7.50. Sold 10 crates at $2.50; 24 at $2.25; 5 at $2; 1 crate

spoiled, no sale. Commission, 4%; guarantee, 1%; cartage, 75¢. Proceeds received by Chicago draft, less exchange 50¢. Prepare the invoice of shipment and the account sales.

4 The Empire Trading Company, Cincinnati, received from the Newman Mfg. Company, Little Falls, to be sold on commission, 100 cases, assorted prints. Freight and cartage, $37.50, paid by the consignee. The goods were sold in four lots, as follows: 25 cases at $24.75; 25 cases at $25.25; 30 cases at $25; 20 cases at $26.25. Commission, 7½%; insurance, ½%; advertising, $5. Advance payment by sight draft, $150, and proceeds paid by check. Render an account sales.

5 Giglio & Segni, commission merchants, New York, received from Castelli & Pietro, Messina, Italy, to be sold on their account and risk, 100 boxes fancy oranges, 100 boxes choice lemons. The consignees paid customs duties, etc., $57.50; freight and drayage, $5.35. They sold the oranges at $3.50 per box, and the lemons at $3.25 per box. Their charges were: commission 5%, insurance $2.50, storage $2.25, guarantee 1%; and they remitted the net proceeds in Palermo funds, less exchange, 9.75 liras. Render an account sales in liras. (The value of a lira is 19.3 cents in United States money.)

6 Beebe & Coleman conduct a produce commission business. Each invested $2500, and they share the gains equally. Beebe receives a salary of $80 per month, during the five "season" months, for extra services. The withdrawals on private account are limited to $100 a month, excepting during the "season" months, when Beebe may draw $150 a month. The partners' personal accounts are to be adjusted annually before Dec. 31. The books are to be closed annually Nov. 30. The investment accounts are to remain stationary. Following is an abstract of the general ledger, Nov. 30, 19—, of the above firm: *Credits.* — Commission, $4895.84; Sundry Charges, $143.92; Accounts payable, $146.97; W. H. Beebe, $2500; T. R. Coleman, $2500. *Debits.* — Furniture and Fixtures, $575; Expense, $1782.67; Accounts receivable, $2652.18; Advances, $346.26; W. H. Beebe, personal, $1475; T. R. Coleman, personal, $850. The cash in bank and in safe is $2505.62; the furniture and fixtures are valued at $525.

From the above data make a trial balance, and prepare statements of losses and gains and of resources and liabilities.

7 The statement of losses and gains of Drake & Smith, commission merchants, Dec. 31, 19—, shows the following: *Gains.* — Commission, $3796.86; Cartage, $312.40; Discount, $91.54; Shipments, $1320.06; Merchandise, $4652.72. *Losses.* — Rent, $1200; Salaries, $1875; Insurance, $63.75; Freight, $119.26; Interest, $31.52; Furniture and Fixtures, $75; General Expenses, $87.49. Rule an account form on a sheet of cap paper and show the Loss and Gain account of the above firm as it would appear after the books had been closed for the year ending Dec. 31, 19—. The partners share the gains in the proportion of Drake ⅗ and Smith ⅖.

8 Using the model cash book, shown on pages 196 and 197, as a guide, rule a form of cash book on loose journal paper which you think would meet the requirements of a purely commission business, where the conditions are as follows: Numerous cash payments are made for freight, cartage, and expense items; a general expense and separate freight and cartage accounts are kept; a separate ledger is kept for customers' accounts, and payments on these accounts are made chiefly in cash. Explain the advantages which you believe your form of cash book possesses over the ordinary form.

9 Assume that you have accepted a position as bookkeeper for E. A. Raschke, produce commission merchant, and, upon taking charge of the books, you find the following conditions to exist: (1) A trial balance has not been taken in several months; (2) the cash has not been balanced in over two weeks; (3) the bank pass book has not been written up for

nearly three months; (4) the books consist of a receiving book, an ordinary form of sales book, an ordinary form of cash book, and a ledger; (5) besides handling produce on consignment, the proprietor buys and sells other products on his own account.

State what steps you would take to meet the first three conditions; what changes you would recommend in the books, either in form or number or both; state what accounts you would keep in the general ledger, so that the proprietor could, by reference to it, easily and quickly determine at any time the particulars regarding his business which a commission merchant should know.

The following exercises are given for practice in schools which have adding machines.

10 Prove the charge postings to your accounts receivable accounts by listing on the adding machine, first the charge sales from your sales book, and second, the debit footings of the accounts, and comparing the footings of the two lists.

11 Prove the credit postings to your accounts receivable accounts by listing, first, the credit payments from the cash book, and second, the credit footings of the accounts, and comparing the footings of the two lists.

12 Prove the credit postings to your accounts payable accounts by listing, first, the purchases from purchases journal, and second, the credit footings of the accounts, and comparing the two footings.

13 Prove the debit postings of your accounts payable accounts by listing, first, the debit payments from the cash book, and second, the debit footings of the accounts, and comparing the two footings.

14 Prove the accounts receivable accounts by comparing the difference between the debit and credit footings of the lists obtained in exercises 10 and 11 with the balance of the accounts receivable, as shown by your statement of resources and liabilities.

15 Prove the accounts payable accounts by comparing the difference between the footings of the lists obtained in exercises 12 and 13 with the balance of the accounts payable, as shown by your statement of resources and liabilities.

QUESTIONS

1 In most lines of business, how are goods usually marketed?

2 In what other way do some producers and manufacturers dispose of their products?

3 Define commission business, and state how a commission merchant receives payment for his services.

4 Define consignor, consignee, consignment, shipments.

5 Describe the method of marking goods so that it may be known to what consignment they belong.

6 Give the rule for debiting and crediting Shipments.

7 Give the rule for debiting and crediting Consignments.

8 What is the consignment ledger, and what are the advantages of the loose-leaf method of keeping accounts with consignments?

9 Define advances, and state where they should be entered in the consignment ledger.

10 When all the goods of a consignment have been sold and the entries of sales made in the consignment ledger, how should you proceed to close the account in the consignment ledger?

11 What extra columns appear in the cash book of this business?

12 What are the advantages of having special columns in the cash book?

13 When should a special column be provided for an account?

14 How are merchandise discounts posted?

15 What items appear in the Shipments column on the debit side of the cash book? On the credit side?

16 What items should appear in the Consignments column of the cash book?

17 What is the object of the shipment ledger?

18 What special columns appear in the sales book?
19 How are sales from consignments indicated in the sales book?
20 Describe the account sales register. What accounts are posted from this book?
21 What is a controlling account, and what is the object of such an account?
22 Name the controlling accounts used in this set.
23 Of what ledgers are the controlling accounts in this set an abstract?
24 How do you prove a ledger which has a controlling account?
25 Is this an absolute proof of the accuracy of the work in both the ledger and the controlling account?
26 Where should you post the footing of the Consignments column from the credit side of the cash book?
27 Where should you post the footing of the Sales from Consignments column of the sales book?
28 How should you post the Amounts to be Posted column of the accounts sales register?
29 What is meant by "net proceeds"?
30 Give a full explanation of the Shipments account.
31 What result does the Shipments account show?
32 Explain fully the Consignments account.
33 What does the balance of the Consignments account show?
34 Why must Consignments account balance when all consignments have been disposed of?
35 Why does the Consignments account never show a gain?
36 What accounts show the profits from consignments?
37 What is the object of keeping a separate account with Freight In?
38 How should this account be closed? Why?
39 How may copies of business papers be quickly made?
40 Explain two methods of indexing ledgers and impression books.
41 How was the bank account kept in this business?
42 In what ways may detailed records of deposits be kept?
43 Explain how you would reconcile the bank balance.

WHOLESALE DRY GOODS BUSINESS

Wholesaling. — Buying and selling merchandise in bulk, — that is, by the dozen, gross, case, or lot, etc., — instead of by the single article, is called "wholesaling." It is a form of business activity which is between manufacturing, or producing, and retailing, and is an important department of commerce. Some manufacturers also do a wholesale business, selling direct to the retail trade.

The wholesaler generally buys from the producer and sells to the retailer. Sometimes he buys from middlemen, called jobbers, selling agents, and commission merchants, who act as agents for others, generally manufacturers or producers. Middlemen derive their revenue or profit chiefly from commissions on sales made for others, while wholesalers obtain their revenue chiefly from sales of merchandise which they have previously bought. The principal revenue account of middlemen is "Commissions," and that of wholesalers is "Merchandise" or "Trading Account" which represents it. Buying and selling merchandise is called "trading," and the amount of merchandise sold during a fiscal or business period, figured at prime cost, is called the "turnover."

While there are many lines of wholesaling, some of which have more or less special characteristics, certain forms of accounting records are used which are common to all. The dry goods business has been selected for this work, to illustrate wholesaling practices and accounting, because of its representative character, both as regards commodities and records.

Books Kept in Wholesale Business. — The books kept in a wholesale dry goods business do not differ in principle from those used in other lines of business; but most progressive houses make use of modern labor-saving forms of account keeping, including special column books, impression sales books, loose-leaf sales sheets, loose-leaf ledgers, etc., wherever practicable.

Books to Keep. — The books which you will keep in this work are the journal, sales book, cash book, purchases journal, sales journal, general ledger, sales ledger, purchases ledger, and notes receivable and notes payable books.

Journal. — On the debit side, the journal here used is provided with the following columns: Notes Receivable, Accounts Payable, General. All notes received are entered in the Notes Receivable column. The several items in this column are checked but not posted. The footing of the column is posted to the debit of Notes Receivable in the general ledger. (See Model Journal, page 220.)

When a creditor is paid by note, he is charged in the column entitled "Accounts Payable." The several items in this column are posted to the debit of the proper accounts in the purchases ledger. The footing of this column is posted to the debit of the controlling account, Accounts Payable, in the general ledger.

Debit journal amounts other than those provided for above are entered in the General column. The several items in this column are posted to the debit of the proper accounts in the general ledger. The footing is not posted.

Journal, August 1, 19—

Notes Rec.	Accts. Pay.	General	L.F.		General	Accts. Rec.	Notes Pay.
				Edward Deane has this day been admitted into partnership with Geo. W. Barnes and C. M. Lyon under conditions shown in articles of co-partnership executed on same date. The investment of each partner and the assets and liabilities of the firm are shown in the following entries, and a new set of books is opened showing the following balances.			
		5320	√	Cash in bank 5200 " safe 120			
		24800		Inventory			
3200			√	Notes Receivable			
		25900		Accts. Rec.			
		15 50		Interest On Notes Receivable			
		3000		Furniture			
		13000		Real Estate			
		600		Horses & Wagons			
		250		Insurance			
				Accts. Pay.	24500		
			√	Notes Payable			12000
				Interest On Notes Payable	140 50		
				Discount	6 50		
				Geo. W. Barnes capital	15751 40		
				C. M. Lyon "	18687 10		
				Edward Deane "	5000		
				9			
	1600			B. Martin & Co. note at 4 m. on			
			√	Notes Pay. acct.			1600
				15			
845 20			√	Notes Rec. in full to date by D. H. Cross & Co. 4 m. note		845 20	
				22			
345 20			√	Notes Rec. dft. at 10 da. for Curtis, Hines & Co. invoice 7/4		345 20	
				29			
	125 50			R. H. White & Co. R. B. p. 175 Returned Purchases	125 50		
				31			13600
4390 40		4390 40		Notes Receivable,			
	1725 50	1725 50		Accts. Payable,			
				Notes Payable,	13600		13600
				Accts. Receivable,	1190 40	1190 40	
		79001 40			79001 40		

The journal is provided with the following columns on the credit side: General, Accounts Receivable, Notes Payable. Whenever a customer gives a note on account, he is credited with the amount of the payment in the column entitled "Accounts Receivable." The several items in this column are posted to the credit of the proper accounts in the sales ledger. The footing of this column is posted to the credit of the controlling account, Accounts Receivable, in the general ledger.

When a note is issued on account, the credit entry is made in the Notes Payable column. The footing of this column is posted to the credit of Notes Payable in the general ledger. The several items are checked but not posted.

All credit journal amounts other than those provided for above are entered in the General column. The several items in this column are posted to the credit of the proper accounts in the general ledger. The footing is not posted.

The special columns, Accts. Pay. and Notes Rec. on the debit side of the journal, and Accts. Rec. and Notes Pay. on the credit side, are footed at the end of the month, and the amounts are transferred to the General columns, and the proper ledger titles are written opposite them in the explanation column. The journal is then ruled up (see page 220).

Cash Book. — On the debit side the cash book is provided with the following columns: Sales Ledger, General Ledger, Sales Cr., Discount on Sales, Net Receipts. (See form, page 222.)

When a customer pays on account, the amount of the invoice is entered in the column entitled Sales Ledger. If discount is allowed, the amount of the discount is entered in the column headed Discount on Sales. The amount of cash received is entered in the Net Receipts column. All cash sales are entered in Sales Cr. column. All other receipts are entered in the General Ledger column. The net amount received is entered in the Net Receipts column in every case.

Note that the sum of all credit columns is equal at all times to the sum of all debit columns.

When posting the left-hand page of the cash book, the items in the first column are posted in detail to the credit of the individual account in the sales ledger; the items in the general column are posted to the credit of the proper accounts in the general ledger. Note that these two columns are the only ones posted in detail. At the end of the month, the columns are footed and posted, as illustrated in the form, to the general ledger.

On the credit side the cash book is provided with the following columns: Purchases Ledger, General Ledger, General Expense, Discount on Purchases, and Net Payments (page 223).

This side is handled similarly to the debit side. All entries in the first three columns are debits and those in the last two are credits.

Only the first two columns are posted in detail. All other columns are posted at the end of the month as illustrated in the form.

At all times the balance of cash may be found by subtracting the Net Payments column from the Net Receipts column.

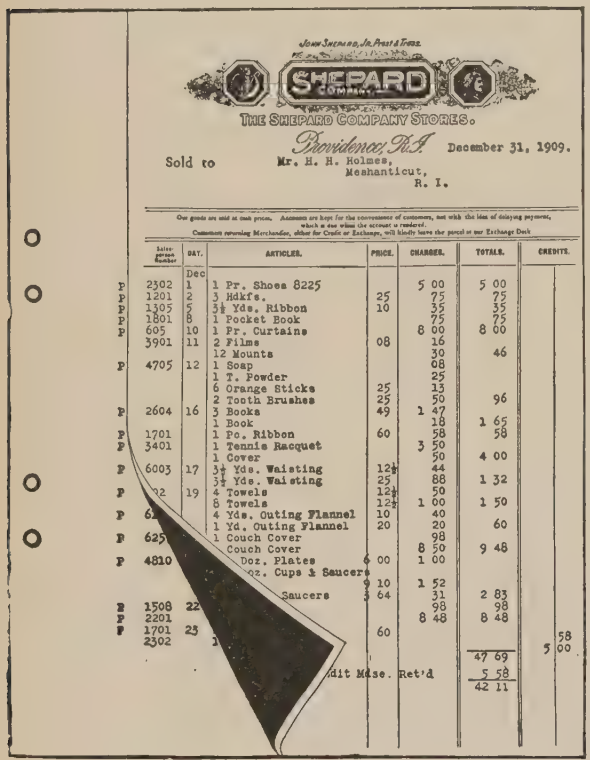
Proving Cash. — The cash should be proved daily by comparing the total amount of cash in safe and in bank with the balance as shown in the cash book.

Purchases Journal. — This book contains a record of the invoices of goods bought. It is the ordinary form of two-column journal, one column for daily items and the other for daily and other totals. When an invoice reaches the bookkeeper, it is entered in the purchases journal. Only the date, serial number or department letter, name of the creditor, and amount of the invoice appear in this book. The serial number or department letter is next written on the invoice, and it is then posted to the proper account in the purchases ledger. The several items in the purchases journal are not posted, but the footing is posted at the end of the month

CASH RECEIPTS

DATE		L.F.	ACCOUNTS CR.	EXPLANATIONS	SALES LEDGER	GENERAL LEDGER	SALES CR.	DISCOUNT ON SALES	NET RECEIPTS
19—									
Aug	1		Balance	2268.95					2268 95
	1		Notes Receivable	Warren 6/30		1200			1200
	4		C. H. Barton	6/10 less 2%	498			9 96	488 04
	6		D. B. Lyon	7/6 less 3%	600			18	582
	6	√	Sales	S. B.			242 78		242 78
	7		W. H. Wray	Net	244				244
	9		Notes Receivable	Leach 6/9 dis.		412 50		*2 15	410 35
	9		Interest on Notes Rec.	above		4 13			4 13
	10		Ferry Bros.	7/10 less 3%	915			27 45	887 55
	12	√	Sales	S. B.			412 60		412 60
	14		T. M. Hunt & Co.	8/10 less 5%	720			36	684
	15		Notes Rec.	Harper 5/15		928 70			928 70
			Accounts Rec. (Cr.)		2977				
		√	General Ledger (Cr.)			2545 33			
			Sales (Cr.)				655 38		
			Dis. on Sales (Dr.)					91 41	
			Dis. on Notes Rec. (Dr.)					2 15	
			Cash (Dr.)						6084 15
		√	Balance Aug. 1						2268 95
									8353 10
Aug	16		Balance	3873.50					

to the debit of Purchases account, and to the credit of Accounts Payable account, in the general ledger.



Sales Journal. — This book contains a record of the sales. Only the date, name, and amount of the sale appear in this book. The complete record of the sale appears on the duplicate bills, from which the posting is done and the entries in the sales journal are made. The form of the sales journal is the same as that of the sales book used in August, except that it contains no cash column, and it is footed at the end of the month, posted and closed the same as that book, the entry being "Accounts Receivable" (Dr.), "Sales" (Cr.) for the amount. The sales journal will be used in the September work.

Bill and Charge System. — Instead of making bills singly with the pen or typewriter, they can be made in duplicate, triplicate, etc., on a billing machine or a typewriter, by the use of carbon sheets, and one of the copies used as the original entry, or posting medium, thereby dispensing with the necessity of the sales book. This is called "the bill and charge

CASH DISBURSEMENTS

DATE	L.F.	ACCOUNTS DR.	EXPLANATIONS	PURCHASES LEDGER	GENERAL LEDGER	GENERAL EXPENSE	DISCOUNT ON PURCHASES	NET PAYMENTS
19—								
Aug. 1		Rent	August		150			150
1		R. H. White & Co.	7/10 less 3%	400			12	388
	√	General Expense	exchange			1 20		1 20
3		H. W. Little & Co.	7/20 less 5%	750			37 50	712 50
4		Notes Payable	chgd at Bk.		1420 50			1420 50
		Interest on Notes Pay.			14 21			14 21
	√	General Expense	exchange			75		75
6		C. W. Carter & Sons	7/6 less 2%	920 50			18 41	902 09
8		Office Supplies	stamps, etc.		12 46			12 46
9		Freight-In.	to date		72 50			72 50
12		Edw. Hayes & Co.	7/12 less 5%	845 20			42 26	802 94
15	√	General Expense	coll. & each			2 45		2 45
		Accounts Payable	(Dr.)	2915 70				
	√	General Ledger	(Dr.)		1669 67			
		General Expense	(Dr.)			4 40		
		Dis. on Purchases	(Cr.)				110 17	
		Cash	(Cr.)					4479 60
		Balance { in safe	61.50					
		Balance { in bank	3812.					3873 50
								8353 10

system." The original bill is sent to the customer, the duplicate to the bookkeeper, and the triplicate is placed in a binder in the shipping department, for reference. From the duplicate, the entry is made in the sales journal, as explained above, and after the serial number has been written on the bill, the account in the sales ledger is charged from it, after which the bill is filed in a numeric binder. The duplicate bills support the records in the sales journal.

Notes Receivable and Notes Payable Books. — These books will be kept as auxiliary books; that is, a record of all notes received and issued will be kept, but no posting will be done therefrom. Some bookkeepers post the items directly from the notes receivable and notes payable books to their respective accounts, and the monthly footings to the Notes Receivable and Notes Payable accounts in the general ledger.

Ledgers. — Three ledgers are used in this work, viz., purchases ledger, sales ledger, and general ledger. The purchases ledger contains the accounts of all persons from whom goods are purchased on account. The sales ledger contains the accounts of all persons to whom goods are sold on account. Both these ledgers are provided with special columns.

The purchases ledger and sales ledger are subsidiary to the general ledger, and are connected with it by their controlling accounts, Accounts Payable, and Accounts Receivable. The balance of the Accounts Payable account in the general ledger must equal the sum of the balances of the accounts in the purchases ledger. The balance of the Accounts Receivable account in the general ledger must equal the sum of the balances of the accounts in the sales ledger.

The general ledger contains all the accounts of the business which are not kept in the purchases ledger or the sales ledger, together with the controlling accounts of those ledgers.

The Balance Ledger. — In this month's work you will use what is known as the "balance ledger" for the form of your purchases ledger and sales ledger. See form on page 224.

WARNER, DEFOREST & Co., AMSTERDAM, N.Y.

DATE		DESCRIPTION	TERMS	FOL.	DEBIT	BALANCE	CREDIT	DATE		FOL.	EXPLANATION
19—								19—			
July	1	Bal.	J	1	812 70	1 812 70	1 812 70	July	10	12	C
	9	S. B.	5% 10 ds.	7	215 70	2	2 215 70		19	14	C
	14	"	2/20 Net 30	9	168 70	4	3 210 25		21	14	C
	18	"	" "	11	415 60	5	4 168 70		23	16	C
	20	"	Net 60 ds.	12	388 70		5 415 60		28	18	Note 4 mos. Int.
	20	"	2/10	12	412 20	3	6 412 20		30	18	C
	21	"	Cash	13	210 25	8					
	26	"	Net 30 ds.	14	160 40	549 10					

The headings of the columns of the balance ledger explain their uses. The Debit and Credit columns are placed near together, with the Balance column between. This form of subsidiary ledger is specially adapted for use in any business where the terms are specific and induce or require prompt settlement of every sale or purchase. When any particular bill has been paid, instead of ruling off the items, a small figure is written opposite each of the amounts. (See model form, above.) A glance at the account shows what bills remain unpaid, and in taking a balance of the account only these amounts are considered. The balance of an account is written in the Balance column at the end of the month, and should agree with the monthly statement sent to the debtor or received from the creditor. Only the balance at the end of the current month should be included in the schedule of balances or proof of the balance ledger.

Sectional Sales Ledgers. — When it is not convenient or desirable to keep all of the accounts with customers in one sales ledger, these accounts may be divided, and each division kept in a separate or sectional sales ledger. The accounts may be divided alphabetically, geographically, or in any other way that may be desired, and the separate ledgers will be known by the accounts which they contain, as Sales Ledger A — D, Ohio Sales Ledger, City Sales Ledger, Dept. G. Sales Ledger, etc. Each sales ledger will have its own sales book or books, and may have a separate controlling account, or all of them may be controlled by the main controlling account, Accounts Receivable account.

Self-Balancing Ledgers. — A subsidiary ledger, from which a trial balance can be taken without reference to its controlling account in the general ledger, is called a *self-balancing ledger.* A subsidiary ledger may be made self-balancing by constructing in it a controlling account, and posting to that account the amounts which are posted to the controlling account in the general ledger from the original books of entry, such as the footings of the sales book or purchases book, and of the accounts receivable or accounts payable columns in the cash book. Since the items represented by the footings have been posted to the proper sides of the separate accounts in the subsidiary ledgers, these footings must be posted to the opposite sides of the controlling accounts in the subsidiary ledgers.

The advantage of the self-balancing ledger is that the assistant bookkeepers can prove their ledgers at the end of the month, or at other times, without having to refer to the general ledger, or to obtain from the head bookkeeper the balances of their controlling accounts.

The title of the controlling account in a subsidiary ledger may be the same as that in the general ledger, as Accounts Receivable, or Sales, for the sales or customers' ledger; or it may have the title *Controlling Account*, or the title *General Ledger*.

In the work for September the student will convert his purchases ledger and his sales ledger into self-balancing ledgers, by constructing a controlling account in each of these ledgers, under the title *Controlling Account*, and after posting the footings of the original books of entry to the proper controlling accounts in the general ledger, as heretofore, he will re-post these footings to the opposite sides of the controlling accounts in the subsidiary ledgers, checking the amounts posted in the usual way. The two check marks against each footing will show that the amount has been posted to both controlling accounts.

Private Ledger. — When it is desired not to have the general ledger show the capital accounts of the proprietors, and other accounts which may be considered of a private nature, these accounts are kept in a subsidiary ledger, called a "private ledger," and a controlling account, Private Ledger, is opened in the general ledger. The private ledger and the private books, which are used in connection with it, are usually kept by a member of the firm, or by the confidential man of the concern.

Accounts Kept. — The accounts kept in any business will depend chiefly upon its character and size, and the detailed information which the proprietor desires to have the books show.

It is desirable to have the number of accounts in the general ledger as few as possible, consistent with good accounting, and at the same time have proper regard for the classification and details of the business. This can be accomplished by the use of special books of original entry, and subsidiary or underlying ledgers.

Analyzing Accounts. — When more detailed information is desired regarding any phase of a business than is shown by the footings or balance of the account which it represents, this may be obtained by "analyzing the account." This is done by drawing off the items in the account on an "analysis sheet," where they are classified and entered in separate columns, headed according to the information which it is desired to obtain.

Division of Accounts. — Accounts are usually divided into three general classes; namely, Real accounts, Personal accounts, and Nominal accounts.

Real accounts are accounts which represent property or values, such as Cash, Inventory, Real Estate, etc. Personal accounts are accounts with debtors and creditors of the business, and include the capital account, which, although not a liability, represents the amount for which the business is accountable to the proprietor. Notes Payable, Notes Receivable, Mortgages Payable, Mortgages Receivable accounts are also classed as Personal accounts. Real accounts and Personal accounts are called "continuing accounts," because they are not opened or set up for any definite period.

Nominal accounts are accounts which are opened or raised for temporary purposes, and are closed at the end of a business period, such as Rent, Salaries, Insurance, Taxes, Purchases, Sales, Profit and Loss, etc.

Most nominal accounts show profits or losses, but the subdivisions of the merchandise account show "activities," namely, the trading of the business, and the main account shows the profit or loss.

Nominal accounts possess the elements of real accounts when they represent assets or liabilities, such as interest accrued and not paid, unearned insurance, and property on hand at the beginning of a fiscal period which was previously charged to nominal accounts, as office supplies, shipping supplies, etc.

Accounts to Construct. — In addition to most of the accounts with which you are already familiar, you will construct other real and nominal accounts in this business. These will be indicated and explained as they arise in the work.

The general ledger will be both opened and closed by passing the entries through the journal.

Assets and Liabilities. — The assets of a business consist of all property and rights belonging to the business which have a money value. The liabilities of a business are the amounts due to outside parties, as distinguished from its obligations to the proprietors or the stockholders. The assets and liabilities of a business may be divided into fixed assets and floating assets, fixed liabilities and floating liabilities.

Fixed assets are the permanent assets which are necessary for conducting the business, such as the furniture and fixtures of a store, plant and machinery of a factory, office equipment, etc. *Floating* or *current assets* are the assets which are constantly changing in quantity and value as the result of the operations of the business, such as cash, merchandise, notes receivable, accounts receivable, supplies, etc. These assets may be sold or realized without interfering with a business or its operations. Floating assets are also called *circulating* assets. Floating assets which consist of cash, or can be readily converted into cash, such as checks, demand notes, securities which have a ready market, are called quick assets; also called *liquid* assets.

Fixed liabilities include obligations which are not payable for a long time, such as mortgages, mortgage bonds, etc., and are liens on some of the fixed assets. *Floating* or *current liabilities* are the claims of creditors which will have to be met within a short time, as notes payable, accounts payable, interest accrued but not due, etc. Liabilities which are not absolute, but which may come into existence as the result of the happening of some events, are called *contingent* liabilities.

PRELIMINARY WORK

August 1, 19—

You have entered into partnership this day with Henry W. Taylor and Clark F. Wood, who have been conducting a wholesale dry goods business under the name of Taylor & Wood. The name of the new firm will be Taylor, Wood & Co., and its purpose will be to purchase and develop the business of the firm of Taylor & Wood.

In accordance with the Articles of Copartnership, which were drawn up in triplicate by an attorney, and executed this day by the partners, the partnership is to continue five years, unless sooner dissolved by mutual consent of the partners.

You are to invest $2500 cash in the business, and Mr. Taylor and Mr. Wood are to invest their respective interests in the business of Taylor & Wood, as they appear on the books of that firm when closed as of July 31, 19—.

The new firm is to take over the assets, and to assume the liabilities of the old firm at their book values.

By "book values" is meant the balances of the accounts as shown by the ledger, no allowances being made for possible failure of debtors to pay in full, nor for depreciation of property.

The partners are to be allowed salaries, monthly, for their services, as follows: Taylor, $150; Wood, $125; yourself, $175.

The books are to be closed annually, as of July 31, during the life of the partnership, and at the termination of the same.

At the time of closing the books, each partner shall be allowed interest at 6% on his investments and charged interest at the same rate on his withdrawals. No member of the firm shall draw to exceed $250 per month for his personal use.

The profits and losses of the business are to be shared equally by the partners.

No. 1 This cash represents your investment, which you will turn over to the business by placing it in the Cash Drawer. The proper record will be made when the books are opened. Place the notes receivable on hand in the Cash Drawer also.

The assets and liabilities of the firm of Taylor & Wood, at the close of business July 31, 19—, and the interests of the partners are shown by their Balance Sheet and supporting schedules, which are given below and on page 228.

Balance Sheet

Taylor & Wood, July 31, 19—

ASSETS

Cash in Commercial Bank,	$ 5860.	
Notes Receivable per schedule No. 3,	2102.45	
Interest, accrued on above	17.24	
Accounts Receivable per schedule No. 1,	20442.75	
Inventory, merchandise " " No. 5,	26609.96	
Shipping Supplies " " No. 9,	292.07	
Office " " " No. 8,	169.31	
Insurance, unearned premiums,	275.	
Horses and Wagons per schedule No. 7,	750.	
Furniture and Fixtures " " No. 6,	2500.	
Real Estate, flat #74 Chestnut St.,	12000.	
Total assets,		$71018.78

LIABILITIES

Notes Payable per schedule No. 4,	$10500.	
Interest, accrued on above,	128.25	
Accounts Payable per schedule No. 2,	19264.69	
Total liabilities,		$29892.94
Net assets,		$41125.84

Capital

H. W. Taylor capital a/c,	$16431.95	
C. F. Wood " "	24693.89	
Present worth,		$41125.84

Schedule 1. Accounts Receivable, per Sales Ledger

Harris & Smith, 139 Main St., City,	$4577.94
Brown & Wilson, Troy,	1324.11
Jas. H. Wood & Son, Newton,	1016.42
L. H. Parker, Lima,	1203.86
Sibley & Co., Gardner,	2943.01
W. B. Snow, Akron,	536.88
Ingham & Case, Alton,	66.35
B. C. Wiley, Waverly,	122.44
J. G. Smith, Ottawa,	914.13
W. O. Harrison, Randolph,	1682.12
Lewis W. Chase, Jackson,	3695.42
Carlton, Sons & Co., Dansville,	2360.07
	$20442.75

SCHEDULE 2. ACCOUNTS PAYABLE, per Purchases Ledger

Sibley, Lindsay & Curr Co., New York,	$10184.23
Burke, Fitz Simons, Hone & Co., Boston,	2837.90
Gimbel Bros., Philadelphia,	4628.71
Granite Mills, Fall River, Mass.,	904.85
Little Falls Woolen Co., Little Falls, N. Y.,	709.00
	$19264.69

SCHEDULE 3. NOTES RECEIVABLE

Note of C. F. Jenkins for $407.32, dated May 18, payable at First National Bank, Marietta, Ohio, drawn at 3 months with interest, at 6%.

Note of Wilson & Randolph for $654.90, dated June 14, payable at Merchants Bank, Buffalo, N. Y., drawn at two months with interest, at 6%.

Note of Warren & Co. for $325.00, dated July 23, payable at Traders Bank, Scranton, Pa., drawn at sixty days without interest.

Note of Isaac Holman & Sons for $715.23, dated June 1, payable at Second National Bank, Newark, N. J., drawn at three months with interest, at 6%.

Interest accrued on the above, $17.24.

SCHEDULE 4. NOTES PAYABLE

Note in favor of Commercial Bank for $10000, dated May 20, drawn at four months with interest, at 6%.

Note in favor of Little Falls Woolen Co. for $500, dated April 24, drawn at four months with interest, at 6%.

Interest accrued on the above, $128.25.

When a legal change is made in the ownership of a business it marks the end of a current period, and the books must be closed for that period. When such a change does not permanently interrupt the progress of the business, it is customary to continue the use of the old books. Sometimes, however, advantage is taken of such a situation to effect a partial or complete change in the system of records and accounts. In this work, it will be assumed that a new set of books is opened, and an improved system of accounts is installed.

Opening the Books. — You will now frame an opening entry in the journal to represent the assets and liabilities of the business, and the investments of the partners. The assets which Mr. Taylor and Mr. Wood have contributed, and their net capital, together with the liabilities assumed by the new firm, are shown in the balance sheet of Taylor & Wood and the accompanying schedules, given on page 227 and above. Your investment is the amount of the cash in safe. (See form of opening journal entry, page 220, and note carefully all of the details.) Inventory account will represent the merchandise inventories in this work.

Supporting Records. — You will note that the opening entry in the journal contains only the several items which represent the assets and liabilities.

Make an entry in the cash book, and on the stub of the check book, for the cash in bank. Enter the cash which you have invested, writing for explanation, *investment per J*, and check the entry, as the credit to your account will be posted from the journal. These entries support the record in the journal. Rule off the journal. (See page 220.)

Enter the notes receivable and notes payable as per schedules, in notes rec. and pay. books.

Open accounts in the general ledger and post the opening journal entry. Allow one-third of a page to each account. Open the partners' capital accounts on page 1, and leave

page 2 for their personal or drawing accounts, to be opened later. For explanation write *Inventory*, for accounts with furniture and fixtures, horses and wagons, interest, real estate, insurance, and shipping supplies. For all others, excepting Inventory account, write *balance*. No explanation is necessary for the Inventory account.

Arrange an index for the three ledgers on the index pages of blank No. 2, and index your general ledger accounts.

Open accounts in the sales ledger as per schedule of accounts receivable, and enter the balances. Allow one-fourth of a page to each account. Index the accounts.

Open accounts in the purchases ledger as per schedule of accounts payable, and enter the balances, allowing one-third of a page to each account. Index the accounts.

You have now completed the opening of the books, and the general ledger shows the assets and liabilities of the business and the capital or investment of the partners. The purchases and sales ledgers show the accounts with creditors and debtors in detail, and support the controlling accounts in the general ledger.

Test the accuracy of your work by taking a trial balance of the general ledger, and a proof of each of the other ledgers. Carry the amount of cash from the cash book to your trial balance. Compare the footing of the balances of the purchases ledger with the balance of Accts. Payable account, and the footing of the balances of the sales ledger with the balance of the Accts. Receivable account, to see if they agree.

The books are now in proper form to receive the records of the current business.

TRANSACTIONS

AUGUST 1

No. 2 Invoice of W. O. Harrison, Randolph, being overdue, draw a sight draft on him for the amount, $750. On the back of the draft make indorsement as follows:

Pay to the Commercial Bank, or order,
Taylor, Wood & Co.,
Per (Your name).

(Sign the firm name to all vouchers, per your own name.)

Place the draft in Vouchers for Others, or leave it at the bank for collection.

No. 3 Give a check for the amount of this bill, from Tower Mfg. and Stationery Co. (Place the bill in your Voucher File.)

No. 4 Make a bill for this order from B. C. Wiley, and enter in sales book. Note the terms. Your teacher will assign you a price list from the lists on pages 230, 231.

Indicate on the bills how the goods were shipped, using the names of the railroad transportation companies, and express companies which operate through your city or town; as, *Wabash R.R., Merchants Despatch, American Exp.*, etc.

The orders in this work provide excellent practice for students who are proficient with the typewriter, and the bills may be made on the machine instead of with the pen, at the option of the teacher.

Terms, 6% 10 days, 5% 30 days. 5 pcs. Monument cotton, 62, 59, 58, 64, 63½ yds. 2 pcs. creton plaid, 41, 38 yds. 3 pcs. French crepon, 36, 40, 37 yds. 5 pcs. wash silk, 48½, 49, 51, 52, 51½ yds. 2 pcs. Duchess satin, 48, 51 yds. 10 doz. lace.

In the dry goods business there are two kinds of terms for different classes of goods — regular and net; and no bills are to run more than sixty days, unless they are "X" bills or carry post datings. An

PRICE LISTS FOR

		1	2	3	4	5	6	7	8	9	10
1. Amoskeag Denim	yd.	.12^{2}	.25	.13	.24^{2}	.23^{2}	.24	.14	.23^{2}	.14^{2}	.23
2. Blk. Venetian	"	1.25	1.37	1.24	1.36	1.23	1.35	1.22	1.34	1.21	1.33
3. Blue Flannel	"	.37	.24^{2}	.36^{2}	.25	.26	.25^{2}	.35^{2}	.26	.35	.26^{2}
4. Broadcloth	"	4.13	4.01	4.14	4.02	4.15	4.03	4.16	4.04	4.17	4.05
5. Creton Plaid	"	.12^{2}	.12$\frac{7}{8}$	.12^{3}	.12$\frac{5}{8}$	.12^{1}	.12$\frac{3}{8}$	.12$\frac{1}{8}$	.13$\frac{1}{8}$	.13$\frac{7}{8}$	.13^{3}
6. C. Lining	"	.07^{2}	.07^{3}	.07^{1}	.07$\frac{1}{8}$	.07$\frac{3}{8}$	.07$\frac{5}{8}$	.07$\frac{7}{8}$	.08$\frac{1}{8}$	.08$\frac{7}{8}$	.08^{1}
7. Cashmere	"	.60	.58	.62	.56	.64	.54	.66	.52	.68	.50
8. Coates Thread	doz.	.55	.54	.36	.53	.37	.52	.35	.51	.38	.50
9. Duchess Satin	yd.	2.00	1.95	1.90	1.98	1.96	1.94	1.92	1.88	1.86	1.84
10. Fruit of Loom Sheeting	"	.08^{2}	.08^{1}	.09^{2}	.08^{3}	.09^{1}	.09^{3}	.10^{1}	.07^{3}	.10^{2}	.07^{1}
11. French Crepon	"	1.75	1.77	1.73	1.79	1.71	1.81	1.69	1.83	1.67	1.85
12. Kersey, 54 in.	"	1.15	1.16	1.34	1.17	1.33	1.18	1.35	1.19	1.32	1.20
13. Monument Unblchd. Cotton	"	.06^{2}	.06$\frac{1}{8}$	.06^{1}	.06$\frac{3}{8}$	.06^{3}	.06$\frac{5}{8}$	.06$\frac{7}{8}$	.05$\frac{7}{8}$	.05$\frac{1}{8}$	.05^{1}
14. Oxford Gray Homespun	"	1.00	1.05	1.10	1.02	1.04	1.06	1.08	1.12	1.14	1.16
15. Plain French Poplin	"	1.20	1.18	1.22	1.16	1.24	1.14	1.26	1.12	1.24	1.10
16. Pique Muslin	"	.15^{2}	.15^{3}	.14^{2}	.15^{1}	.14^{3}	.14^{1}	.13^{3}	.16^{1}	.13^{2}	.16^{3}
17. Smoked Pearl Buttons	gro.	.75	.77	.73	.79	.71	.81	.69	.83	.71	.85
18. Surah Silk	yd.	.48	.50	.46	.52	.44	.54	.42	.56	.40	.58
19. Sateen	"	.10^{2}	.10^{1}	.10^{3}	.10$\frac{7}{8}$	.10$\frac{5}{8}$	.10$\frac{3}{8}$	.10$\frac{1}{8}$	.09$\frac{7}{8}$	.09$\frac{1}{8}$	.09^{3}
20. Storm Serge, Navy Blue	"	.75	.73	.77	.71	.79	.69	.81	.67	.83	.65
21. Talbot Flannel	"	.27	.28	.39	.29	.38	.30	.37	.31	.36	.32
22. Torchon Lace	doz.	.65	.70	.75	.80	.66	.71	.76	.67	.72	.77
23. Velveteen (248)	yd.	.35	.25	.34	.26	.33	.27	.32	.28	.31	.29
24. Whipcord	"	1.10	1.05	1.00	.95	1.09	1.04	.99	1.08	1.03	.98
25. Wash Silk	"	.50	.60	.51	.59	.52	.58	.53	.57	.54	.56
26. Corduroy	"	.75	.74	.63	.73	.64	.72	.65	.71	.66	.70

NOTE. — Where fractions are not expressed in full in the price lists, fourths are understood.

"X" bill is a bill on which an extension of time is allowed, usually sixty days beyond the time allowed by the usual terms. A post-dated bill is a bill which is dated ahead, after the delivery of the goods. Goods (subject to post-dating) delivered after December 1, carry April 1 dating, 2%, 10 days net.

Regular terms are 5% 30 days (expressed 5/30) and 6% 10 days. Net terms are 2% 10 days and 1% 30 days.

If a regular bill is paid in thirty days, 5% discount will be allowed from the amount of the bill; and, if paid in ten days, 6% will be allowed. If a net bill is paid in ten days, 2% will be allowed, and if paid in thirty days, 1%. Extra and post-dated bills are subject to but one discount, namely, 2/10.

In this work, the terms will be given for each sale.

Before an order is sent to the shipping department to be filled it is passed or approved by the credit department, and the approval is indicated on the order, usually by means of a rubber stamp containing the date, the word Approved, and the initials of the credit man or of his assistant who approved the order.

Only the actual goods shipped are billed, and the bills are made out from the shipping records or order sheets, which show the quantities shipped, the routing of the goods, etc. When an order is not filled complete, owing to lack of stock, the unshipped items are indicated on the shipping record or order sheet. These unfilled parts of orders are known as "back orders" or "B O's." The unshipped items are indicated by the letter T (transfer) placed before each item. Back orders are handled the same as regular orders when the goods required to fill them are in stock.

It will be assumed that all out-of-town orders are shipped by freight under straight bills of lading made out by the shipping clerk, unless otherwise stated, and that all freight, both inward and outward, is hauled in the firm's wagons.

Freight companies, unlike express companies, do not call for or deliver goods. Therefore, all freight packages must be hauled to and from the freight houses of the freight transportation companies.

DRY GOODS BUSINESS

	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25
1.	.15	.22^{2}	.15^{2}	.22	.21^{2}	.16	.16^{2}	.21	.17	.20^{2}	.17^{2}	.20	.18	.19^{2}	.18^{2}
2.	1.20	1.32	1.19	1.31	1.18	1.30	1.17	1.29	1.16	1.28	1.15	1.27	1.14	1.26	1.13
3.	.34^{2}	.27	.34	.27^{2}	.28	.33^{2}	.33	.28^{2}	.32^{2}	.29	.32	.29^{2}	.31^{2}	.30	.31
4.	4.18	4.06	4.19	4.07	4.20	4.08	4.21	4.09	4.22	4.10	4.23	4.11	4.24	4.12	4.25
5.	.13$\frac{5}{8}$	.13^{2}	.13$\frac{3}{8}$	.13^{1}	.11$\frac{7}{8}$	.11$\frac{1}{8}$	.11^{3}	.11^{1}	.11$\frac{5}{8}$	.11$\frac{3}{8}$	.11^{2}	.10$\frac{7}{8}$	.10^{3}	.10$\frac{5}{8}$	.10^{2}
6.	.08^{3}	.08$\frac{3}{8}$	.08$\frac{5}{8}$	.08^{2}	.09$\frac{1}{8}$	.09$\frac{7}{8}$	.09^{1}	.09^{3}	.09$\frac{3}{8}$	.09$\frac{5}{8}$	.09^{2}	.10$\frac{1}{8}$	.10^{1}	.10$\frac{3}{8}$	.10^{2}
7.	.70	.59	.61	.57	.63	.55	.65	.53	.67	.51	.69	.73	.72	.74	.71
8.	.39	.49	.40	.48	.41	.47	.42	.46	.43	.45	.44	.40	.38	.39	.42
9.	1.82	1.80	1.78	1.76	1.75	1.74	1.72	1.70	1.68	1.62	1.64	1.56	1.58	1.66	1.60
10.	.10^{3}	.07^{1}	.11^{1}	.08^{1}	.11^{2}	.08^{2}	.11^{3}	.08^{3}	.09^{3}	.09^{1}	.09^{2}	.10^{1}	.10^{3}	.10^{2}	.07^{3}
11.	1.65	1.76	1.74	1.78	1.72	1.80	1.70	1.82	1.68	1.84	1.66	1.62	1.63	1.61	1.64
12.	1.31	1.21	1.30	1.22	1.29	1.23	1.28	1.24	1.27	1.25	1.26	1.30	1.32	1.31	1.28
13.	.05$\frac{3}{8}$	.05^{2}	.05$\frac{5}{8}$	.05^{3}	.07$\frac{1}{8}$	.07$\frac{7}{8}$	.07^{1}	.07^{3}	.07$\frac{3}{8}$	.07$\frac{5}{8}$	.07^{2}	.08$\frac{1}{8}$	.08^{1}	.08$\frac{3}{8}$	.08^{2}
14.	1.18	1.20	1.22	1.24	1.25	1.26	1.28	1.30	1.32	1.38	1.36	1.44	1.42	1.34	1.40
15.	1.22	1.08	1.24	1.06	1.26	1.04	1.28	1.02	1.30	1.21	1.29	1.23	1.27	1.25	1.05
16.	.13^{1}	.16^{3}	.12^{3}	.15^{3}	.12^{2}	.15^{2}	.12^{1}	.15^{1}	.14^{1}	.14^{3}	.14^{2}	.13^{3}	.13^{1}	.13^{2}	.16^{1}
17.	.73	.87	.71	.89	.69	.91	.67	.93	.65	.74	.66	.72	.68	.70	.90
18.	.47	.57	.45	.55	.43	.53	.41	.51	.60	.39	.38	.37	.63	.61	.62
19.	.09^{1}	.09$\frac{5}{8}$	.09$\frac{3}{8}$	.09^{2}	.08$\frac{7}{8}$	.08$\frac{1}{8}$	.08^{3}	.08^{1}	.08$\frac{5}{8}$	.08$\frac{3}{8}$	.08^{2}	.07$\frac{7}{8}$	.07^{3}	.07$\frac{5}{8}$	.07^{2}
20.	.76	.66	.78	.68	.80	.70	.82	.72	.63	.84	.85	.86	.60	.62	.61
21.	.35	.33	.34	.26	.41	.25	.42	.24	.43	.39	.34	.29	.43	.37	.28
22.	.68	.73	.78	.69	.74	.79	.81	.87	.82	.86	.83	.85	.84	.72	.69
23.	.30	.36	.50	.37	.49	.38	.48	.39	.47	.40	.46	.41	.45	.42	.44
24.	1.07	1.02	.97	1.06	1.01	.96	.94	.88	.93	.89	.92	.90	.91	1.03	1.06
25.	.55	.49	.35	.48	.36	.47	.37	.46	.38	.45	.39	.44	.40	.43	.41
26.	.67	.69	.68	.76	.61	.77	.60	.78	.59	.63	.68	.73	.59	.65	.74

For example: 12^{2} means 12$\frac{1}{4}$; .07^{3} means .07$\frac{3}{4}$; .10^{1} means .10$\frac{1}{4}$.

Daily Posting. — The accounts in the Sales Ledger should be posted to date, in order to have them show their true current condition.

AUGUST 3

No. 5 Your traveling man, H. R. Judson, draws $200 cash for expenses.

AUGUST 4

No. 6 Give check to C. H. Garfield, Agt., $300, for rent for August.

No. 7 Sold to Geo. M. Walker, City, for check, 1 piece Oxford gray homespun, 50 yd. 3 pcs. storm serge, 43, 45, 46 yds. 1 piece Duchess satin, 50 yds. 3 pcs. surah silk, 49$\frac{1}{2}$, 41$\frac{1}{2}$, 43 yds.

Make entry in the cash book, crediting *Sales* in special column. Enter sale in sales book, and extend total into Cash column; check the entries.

No. 8 Check from L. H. Parker in full of invoice of July 18, $826.30, less 2% discount. Enter on debit side of cash book as follows: $826.30 in Sales Ledger column, amount of discount in Discount on Sales column, and amount of check in Net Receipts column.

No. 9 Deposit cash $2000, and checks of L. H. Parker and Geo. M. Walker.

You will keep your bank account on the stub of your check book, the same as you did in the Commission Business.

August 6

No. 10 Make a check in favor of Little Falls Woolen Co. for invoice of July 15, $409, less discount 5%.

Enter on the proper side of the cash book as follows: $409 in Purchases Ledger column, amount of discount in Discount on Purchases column, and amount of the check in Net Payments column.

No. 11 Note from W. B. Snow, in payment of balance due Aug. 1.

No. 12 Discount Snow's note at the Commercial Bank, and receive credit for the proceeds.

Find the interest on $536.88 for the full time, and add it to the face of the note; then find the discount to maturity on that amount. Enter the face of the note in the General Ledger column, the discount allowed in the Discount on Sales column, and the net proceeds in the Net Receipts column. Make a separate entry for the interest on the note, placing the amount in General and Net Receipts columns. Place a star (*) in front of the discount in the Discount on Sales column so as to distinguish it from the sales discounts when analyzing this column at the end of the month. (See model form of cash book.) Add the proceeds to your bank balance on the left stub of the check book. If there is no bank, make the entry yourself in your bank pass book, and place the note in Vouchers for Others.

Remember to make proper explanation of these entries to support the record in the check book.

No. 13 This is what is known as a shipper's order (freight C.O.D.). Bill the goods to Ingham & Case in the usual way. Note the terms. 4 pcs. Talbot flannel, 44, 40, 45, 47 yds. 2 pcs. storm serge, 48, 42 yds. 4 pcs. corduroy, $40\frac{1}{2}$, 49, $47\frac{1}{2}$, 39 yds. 2 pcs. surah silk, $43\frac{3}{4}$, $46\frac{1}{4}$ yds.

No. 13 a. Make a sight draft in favor of the Union National Bank for the amount of your bill, pin it to the order bill of lading, and send it to the Union National Bank. (Place in Vouchers for Others.)

For various reasons it is often desirable to make the collection of the purchase price before the goods are delivered to the customer. Such shipments by express are sent C.O.D., and by freight, subject to shipper's order. It is customary to collect in this manner when the credit of the customer is limited, or has not been fully investigated.

Returns on freight C.O.D.'s, or shippers' orders, are usually made by bank draft which is issued and remitted by the bank to whose order the goods were consigned.

When a shipment is made by express C.O.D., the returns are received in currency or by express money order, or express check. If the shipment is handled by more than one express company, the returns are made in currency, which is placed in the original C.O.D. envelope and delivered to the shipper by the express company which first received the goods. On straight C.O.D.'s, that is shipments which are handled by only one express company, the returns are made by express money orders, or special express C.O.D. checks, and these are sent through the mail in the original C.O.D. envelopes direct to the shippers. These money orders and checks can be cashed at the offices of the express companies, which issue them, or they may be deposited in the bank. Except by special agreement between shipper and consignee, which must be noted on the C.O.D. envelope accompanying the shipment, express companies will not accept payment for C.O.D. shipments in any form other than currency.

Goods shipped by express may be put up in paper packages, or inclosed in boxes, at the option of the shipper; but if shipped by freight, they must be boxed, baled, or crated, unless in car load lots, or the nature of the goods is such that they can be handled and transported without being damaged.

No. 14 Invoice, Burke, Fitz Simons, Hone & Co. Check the items, O. K. the bill, and record it in the purchases journal. Note the terms.

After the invoices have been recorded in the purchases journal they should be filed in such a way that reference can be readily made to them. Invoices may be filed in the order in which they are passed by the bookkeeper, by serial number or department letter, or arranged in sections according to departments, or to the names of the creditors. There are various ways in which invoices may be filed and indexed; sometimes they are filed so that the printed name of the creditor is presented to view. A better way, however, is to fold the invoice and index the name of the creditor and the date on the upper edge of the back. The filing should of course be done in alphabetical order.

No. 15 Check from Jas. H. Wood & Son in payment of invoice of July 28, $550, less 2% discount. (Enter as in No. 8.)

No. 16 Mr. Taylor draws $200 cash for his private use.

No. 17 Pay freight bill, $4.36, in cash.

Transportation companies usually require that freight charges be paid before the goods can be removed from the freight house, but frequently arrangements are made whereby this requirement is waived, and the freight charges are paid after the removal of the goods.

In the absence of an agreement, the transportation charges are paid by the purchaser.

Payments for freight and cartage on goods bought are properly chargeable to Purchases, as these items increase the cost of the goods. Since, however, we want to know both the first cost of the goods and the freight paid on them, we charge Purchases for the invoice price from the purchases journal, and construct (open) a Freight In account, and charge all payments made on inbound freight to that account from the cash book. The amount or balance of Freight In account will be added to Purchases at the end of the business period.

Some bookkeepers add the freight to the invoice, and include the amount in the monthly posting to Purchases from the purchases journal.

AUGUST 8

No. 18 Check from J. G. Smith in full of account to Aug. 1.

No. 19 Deposit the checks on hand.

No. 20 Pay Sibley, Lindsay & Curr Co. for invoice of July 28, $3200. Deduct 5% discount, and write a check for the net amount.

AUGUST 10

No. 21 Cash sales. Perkins & Brown, 50 doz. Torchon lace. 40 gross smoked pearl buttons.

Carroll & Marsh, 1 piece whipcord, 50 yds. 1 piece plain French poplin, 40 yds.

Strong & Carlisle (check), 3 pieces black Venetian cloth, 36, 38, 40 yds. 2 pcs. broadcloth, 55, 59 yds. (See No. 7.)

Remember to prove the cash daily, and to keep your books posted to date.

AUGUST 11

No. 22 Check from B. C. Wiley for invoice of July 15, $122.44, less 1% discount.

No. 23 Two pieces, 43 and 38 yds., of the French crepon received from Burke, Fitz-Simons, Hone & Co. on the 6th inst. are found to be damaged. Return the two pieces to them, billing at cost price. Write a letter and inclose the bill.

Enter in the journal, debiting Burke, Fitz Simons, Hone & Co. in Accounts Payable column, and crediting *Purchase Returns* in the General column. For explanation write *Returned Purchases, page —.*

In this work merchandise returned by us will be credited to the Purchase Returns account, and goods returned to us charged to Returned Sales.

Separate books, called Return Books, are generally kept for detailed records of goods returned, and the entries in these books are transferred to the journal in the form given above. The accounts Purchase Returns and Returned Sales are subsidiary to the Purchases and Sales accounts, and are offsets to those accounts.

Forwarding. — When a page of the journal, sales book, sales journal, or cash book is about full, rule a red line across the dollar and cent columns on both sides and foot all the columns. Place the footings on the first blue line below the red line, with the word " Ford." in the explanatory space. Transfer the footings to the first blue line at the top of the following page, writing " Brot. Ford." on the same line in the explanatory space.

August 12

No. 24 Note received from Brown & Wilson on account. (Notes Receivable and Accounts Receivable columns in journal.)

No. 25 Pay, by check, invoice of Gimbel Bros., July 15, $1250, less 1%.

No. 26 Cash sales. National Emporium, 5 pcs. wash silk, 47¼, 49½, 53, 54, 46¼ yds. 2 pcs. cashmere, 41, 39 yds.

Sherman & Co., 2 pcs. French crepon, 43, 37 yds. 6 pcs. No. 248 velveteen, 40, 45, 36, 38, 45, 46 yds.

August 13

No. 27 Ten shares of Wamsutta Mills stock is offered at private sale at $105 per share, to close an estate, and the firm has decided to purchase the stock as an investment. Give J. L. White, Trustee, a check for the amount of the stock, and place the stock certificate in Voucher File. (*Wamsutta Mills Stock*, General column of cash book.)

When stocks and bonds are purchased for investment by a mercantile or manufacturing concern, an account may be constructed to represent each class or kind of security; as *Stocks*, *Bonds*, *American Locomotive Preferred*, *U.S. Steel Common*, *Baltimore & Ohio Gold* 4s, or a *Securities* account may be constructed to represent all such investments.

No. 28 Check received from Sibley & Co. in payment of invoice of July 20, $1540, less 1% discount.

No. 29 The bank has collected your draft of the 1st inst. on W. O. Harrison, $750.

August 14

No. 30 Check from Wilson & Randolph for note and interest due to-day. Consult your bill book and mark the note paid.

No. 31 Salesman's orders. Note the terms.

Thompson & Bulkeley, Easton, 6 pcs. Fruit of Loom sheeting, 58, 60, 55, 64, 66, 58 yds. 8 pcs. Monument cotton, 54, 58, 68, 62, 55, 65, 63, 60 yds. 50 doz. Coates thread. 5 pcs. wash silk, 48½, 50¼, 52, 48¼, 55 yds.

James H. Wood & Son, Newton, 6 pcs. pique muslin, 68½, 66, 74, 75, 71, 70½ yds. 4 pcs. broadcloth, 57, 65, 66, 51 yds. 2 pcs. Creton plaid, 40, 42 yds. 25 doz. torchon lace.

Brown & Wilson, Troy, 5 pcs. sateen, 48½, 47¾, 50, 46¾, 50 yds. 5 pcs. Crown lining, 52, 58, 53, 55, 57 yds. 25 doz. Coates thread.

C. H. Roberts, Westboro, 3 pcs. kersey, 54 in., 45, 48, 43 yds. 20 gross smoked pearl buttons.

No. 32 Invoice of merchandise purchased of the Little Falls Woolen Co.

No. 33 Mr. Wood withdraws $225 cash for private use. (See No. 16.)

No. 34 Pay Sibley, Lindsay & Curr Co., by check, for invoice of July 14, $904.85, less 1% discount.

No. 35 Deposit cash, $200, and all checks.

August 15

No. 36 Pay cash for office supplies, stamps, etc., $18.60. Shipping clerks and porters, $70. Office help, $100.

Shipping Dept. Salaries account represents a selling expense, and Office Salaries account an administrative expense.

No. 37 Invoice of merchandise from Sibley, Lindsay & Curr Co.

No. 38 Check from Carlton, Sons & Co. for the net amount of invoice of July 16.

No. 39 Make your check in favor of Little Falls Woolen Co., for invoice of July 29, $300, less 2% discount.

August 17

No. 40 This remittance is for proceeds of the draft of the 6th inst. on Ingham & Case, sent to the Union National Bank for collection.

No. 41 Cash sales. Geo. M. Walker, City, 50 gross smoked pearl buttons. 1 piece Duchess satin, 48 yds.

H. W. Johnson & Son, City, 1 piece plain French poplin, 50 yds. 1 piece Oxford gray homespun, 48 yds.

No. 42 Pay freight to date on goods received per agent's request, by check, $13.04. (See No. 17.)

August 18

No. 43 Check from C. F. Jenkins for note and interest due to-day.

No. 44 Invoice of merchandise purchased from Granite Mills.

No. 45 Check from Harris & Smith on account. (No discount.)

No. 46 Deposit all checks and the bank draft.

No. 47 Draw $100 in cash for your own private use.

No. 48 Remit Burke, Fitz Simons, Hone & Co. check in payment of invoice of July 22, $2837.90, less 1% discount.

August 19

No. 49 Pay freight bill in cash, $1.19.

No. 50 W. O. Harrison is unable to settle his account at present, and it has been decided to take his note, with interest, for the balance due from him, $932.12.

No. 51 Pay cash for 1 ton hay and 5 bu. oats for stable, $13.50.

August 20

No. 52 Memorandum order from J. G. Smith. 8 pcs. denim, 38¼, 39, 41½, 46, 35, 37¾, 35, 42 yds. 7 pcs. sateen, 48, 45, 46¾, 50, 49½, 51¾, 49 yds. 5 pcs. sheeting, 60, 62, 65, 55, 59 yds. 8 pcs. Crown lining, 52, 55, 54, 56, 60, 51, 58, 50 yds. 4 pcs. Duchess satin, 48½, 49¼, 52, 50 yds. 4 pcs. blue flannel, 50, 48, 49, 54 yds. 10 gross buttons.

No. 53 Salesman's order from L. W. Chase. 5 pcs. denim, 38½, 41, 42, 37½, 43 yds. 4 pcs. blue flannel, 51, 47, 55¾, 46¾ yds. 3 pcs. cashmere, 39, 41, 42 yds. 8 pcs. Fruit of Loom sheeting, 58, 60, 60, 61, 57, 63, 65, 55 yds. 7 pcs. pique muslin, 68, 72, 75, 70, 65, 68, 70 yds.

No. 54 Give Sibley, Lindsay & Curr Co. your note at 20 days (no interest), $2500.

No. 55 Pay Granite Mills, by check, for invoice of July 21st, $904.85, less 5%.

No. 56 Purchase of merchandise from Gimbel Bros.

August 21

No. 57 One piece of kersey, 46½ yds., received on the 20th inst. from Gimbel Bros. is damaged. Return it, and render your bill for the same at cost price. (Enter as in No. 23.)

No. 58 Check from Warren & Co., to prepay their note of $325, less discount to maturity. Mark the note prepaid in the notes receivable book.

Make proper explanations of the entries in the above transaction.

No. 59 Salesman's orders. Brown & Wilson, Troy, 2 pcs. Talbot flannel, 45, 42¾ yds. 2 pcs. whipcord, 40½, 43¾ yds. 5 pcs. Monument cotton, 58, 63, 65, 60, 62 yds. 6 pcs. denim, 38, 43, 37, 44, 40, 36 yds.

Sibley & Co., Gardner, 2% 10 days, 1% 30 days, 6 pcs. Fruit of Loom sheeting, 60, 63, 55, 58, 65, 61 yds. 2 pcs. corduroy, 40, 34½ yds. 2 pcs. black Venetian cloth, 38, 33½ yds. 50 doz. Coates thread.

B. C. Wiley, Waverly, 6% 10 days, 5% 30 days, 3 pcs. Oxford gray homespun, 48, 50, 51¾ yds. 4 pcs. cashmere, 36, 38½, 42, 43½ yds. 7 pcs. Crown lining, 50, 54, 58, 52, 55, 51, 57 yds. 6 pcs. sateen, 45, 50, 49, 53, 48, 49 yds. 50 doz. lace.

August 22

No. 60 Check from Jas. H. Wood & Son for invoice of July 21, $466.42, less 5%.

No. 61 Pay freight bill in cash, $4.58.

August 24

No. 62 Note from Lewis W. Chase on account.

No. 63 Draw a sight draft on Brown & Wilson for invoice of July 15, $504.11, and leave it at the bank for collection.

No. 64 Make a check in favor of Little Falls Woolen Co., in full for your note and interest due to-day. Write them a letter and inclose the check.

No. 65 Remit Gimbel Bros. check for invoice of July 29, $1293.80, less 5% discount.

August 25

No. 66 Salesman's orders. Carlton, Sons & Co., Dansville, 2% 10 days, 1% 30 days, 2 pcs. broadcloth, 60, 58 yds. 4 pcs. Creton plaid, 37, 39½, 41, 38 yds. 5 pcs. sateen, 47, 51, 48, 49, 46 yds. 3 pcs. black Venetian cloth, 48½, 35½, 34 yds. 100 gross buttons.

L. H. Parker, Lima, 30 days net, 2 pcs. whipcord, 40, 42 yds. 6 pcs. Fruit of Loom sheeting, 56, 64, 58, 62, 59, 62 yds. 5 pcs. Monument cotton, 58, 59, 57, 62, 60 yds. 8 pcs. pique muslin, 70, 72, 65, 75, 69, 73, 66, 68 yds. 1 piece broadcloth, 60 yds.

W. B. Snow, Akron, 2% 10 days, 1% 30 days, 6 pcs. wash silk, 47¾, 48, 46½, 49, 53¼, 55 yds. 3 pcs. surah silk, 47¼, 49¾, 52 yds. 3 pcs. corduroy, 36, 38, 37 yds. 6 pcs. Crown lining, 52, 56¼, 55¼, 57, 50, 54 yds.

Levy & Garson, Somersworth, 6% 10 days, 5% 30 days, 90 gross buttons. 40 doz. thread. 2 pcs. plain French poplin, 48, 42 yds. 1 piece kersey, 40 yds.

No. 67 Invoice of merchandise purchased of Sibley, Lindsay & Curr Co.

August 26

No. 68 Discount Chase's note received on the 24th inst., and have proceeds credited.

No. 69 Remit Gimbel Bros. your note at 30 days for $2000, to apply on account. (No interest.)

No. 70 Purchase of merchandise from Little Falls Woolen Co.

August 28

No. 71 Receive credit at the bank for draft on Brown & Wilson, $504.11, left for collection Aug. 24th.

No. 72 Fill the following telephone order received from Harris & Smith, City. Terms, 2% 10 days, 1% 30 days. 4 pcs. Talbot flannel, 44, 45½, 45, 43 yds. 3 pcs. velveteen, 36, 32, 38¼ yds. 2 pcs. unbleached cotton, 60, 62 yds. 3 pcs. Fruit of Loom sheeting, 61, 60, 60½ yds. 25 gross smoked pearl buttons.

August 30

No. 73 Carlton, Sons & Co., Dansville, return, for credit, the goods as per their bill. (*Returned Sales.* See No. 23.)

When returned goods have been duly accepted, it is customary to send what is called a " credit memorandum " Send Carlton, Sons & Co., a credit memorandum for these goods.

Form of Credit Memorandum

New York, Aug.19, 19—.

Memorandum of Amount placed to the

CREDIT

Of Taylor,Wood & Co.

By The H. B. CLAFLIN CO.

2	pcs. Blk. Cashmere, 90 yds.	.75		67	50

No. 74 Check from Sibley & Company on account.

No. 75 Cash sale. W. E. Dennis & Co., City (check), 1 piece storm serge, 48 yds. 4 pcs. velveteen, 38, 36, 37, 39 yds. 2 pcs. French crepon, 40, 38 yds. 2 pcs. cashmere, 41. 37 yds. 1 piece surah silk, 48 yds. 3 pcs. wash silk, 49, 56, 45 yds.

No. 76 Deposit all checks. Draw currency for office use, by check, $100. — (Make the check payable to *Cash.*)

August 31

No. 77 Pay freight bill in cash, $3.49.

No. 78 Pay cash for horseshoeing and repairs on wagon, $5.43. (*Delivery Expenses.*)

No. 79 Pay H. R. Judson by check for August salary, $150 (see No. 5), and B. F. Nolan by check for rent of stable for August, $50. (*Delivery Expenses.*)

No. 80 Pay office help, $100, shipping clerks and porters, $70, and teamster, $44.50 in cash.

The wages of the teamster are a delivery expense.

No. 81 (Student) draws $100 by check for private use.

A month's salary is now due each partner, as per partnership agreement. Frame proper journal entry. (*Office Salaries.*)

Salaries of the partners are an administrative expense, and do not affect their capital accounts.

You will now complete the daily posting to the three ledgers, including all the General column items in the cash book and journal. Preparatory to posting the monthly footings, prove the cash, and rule up and close the books of original entry, as explained and illustrated on pages 219 to 223. Be sure that your footings are correct and that the totals of the two sides of the journal are alike.

In constructing new accounts give each account in the sales ledger one-fourth of a page, and in the purchases ledger and general ledger, one-third of a page.

Since all the entries in the sales book and purchases journal, and all the General column entries in the journal and cash book, have been posted in the daily posting, there remain to be posted only the footings of the purchases journal and sales book, and the footings of the special columns in the journal and cash book. These are all general ledger items.

Purchases Journal. — The closing entry in the purchases journal is Purchases, (Dr.), $——, Accounts Payable, (Cr.). Post these items.

Sales Book. — The closing entry in the sales book is Accounts Receivable (Dr.), $——, Sales, (Cr.). Post these items.

Journal. — The closing entry in the journal contains the debit items, Accounts Payable, $——, and Notes Receivable, $——; and the credit items, Accounts Receivable, $——, and Notes Payable, $——. Post these items.

Cash Book. — The closing entries on the debit side of the cash book are the same as shown in the model form on page 222. See that the sum of the debit postings to the general ledger equals the sum of the credit postings to the general ledger on each side of the cash book.

Having completed the monthly posting, check the posting, after which pencil foot the accounts in the general ledger preparatory to taking a trial balance.

Trial Balance. — Take a trial balance of the general ledger. Pencil foot the accounts in the purchases ledger and sales ledger, extend the balances into the Balance column, and make a schedule of balances of each of these ledgers on loose journal paper. After making the schedules, prove them by comparing the footings with the balances of the controlling accounts, Accounts Payable and Accounts Receivable, in the general ledger.

Monthly trial balances are generally taken for the purpose of testing the accuracy of the posting, but they may also serve for other purposes. The trial balance, which is taken at the end of a business period called the ante-closing trial balance, and the schedule of the inventories of assets and liabilities, taken at the same time, contain the data from which the statements of the condition and results of the business are made.

No. 81 a Assuming that the checks issued on Aug. 31 are outstanding, make a bank voucher slip, similar to that received in the Commission Business, and after entering the total in the pass book, balance and rule up that book, and reconcile your bank balance.

Dissolution of Partnership. — Mr. Taylor, having decided to retire from business, has arranged with his nephew, Mr. Frank H. Taylor, an experienced dry goods man, to take over his interest on September 1, and Mr. Wood and yourself have agreed to the arrangement.

Closing the Books. — In business the books are closed at the end of a fiscal period, usually annually, and also in an individual or partnership business, when a legal change takes place in the business.

Inventories. — Inventories are taken for the purpose of ascertaining the quantities or values, or both, of property on hand, or of assets or liabilities, which are not shown by the books.

Merchandise inventories are usually taken quarterly, semiannually, or annually at the end of a business period. A quarterly or a semiannual inventory of merchandise is usually taken for stock purposes, and quantities only are considered. This is necessary when no stock books are kept; and when they are kept, the quantities shown by the physical inventories are compared with the quantities shown by the stock books.

The value of merchandise on hand is usually determined by adding to the invoice cost of this merchandise, the cost of acquisition — *i.e.* freight and cartage.

When any of the goods on hand have become damaged or unsalable for any reason, proper allowance should be made for this condition in the inventory, in order that it will represent its true asset value for the period. In making all property inventories it is better to be conservative in the matter of values rather than to overestimate or inflate them, thereby causing the records to show fictitious profits.

In order to determine the true profit of any business period, only the expenses which belong to the period should be charged, and only the profits which belong to the period should be credited. The expense accounts in the trial balance may show more or less charged or credited than rightfully belongs to the period and, therefore, adjustments must be made in these accounts before the true profits can be ascertained.

For this reason, inventories are taken of property on hand at the end of the period, which has been charged as expenses, such as shipping supplies, office supplies, etc., and accrued assets and liabilities are determined, such as interest on notes receivable and notes payable, unpaid insurance, rent due and unpaid, etc., and the amounts are carried to their respective accounts. Depreciation of property is treated in the same way when no Reserve for Depreciation of Property account is maintained.

Keeping up Stock. — It is important in every mercantile business to have on hand, at all times, an adequate stock of goods, with which to fill all orders promptly, and in order to be able to do this, it is necessary that some reliable system of reporting stock on hand to the buying department be maintained.

The nature of the business and the ease or difficulty with which stock can be replenished will, in a measure, determine what system of stock reporting will be required for that business. Some concerns can safely rely upon the quarterly inventories for the necessary information concerning the condition, as regards quantities of the stock, while others are obliged to have monthly, weekly, or daily stock reports.

Where stock books are kept, reports can be easily made from the books; where such records are not kept, it is necessary that the stock clerks, or warehouse clerks, make frequent reports of the stock in their departments. This is usually done on stock report sheets or slips, which may contain merely the names of the goods and the quantities on hand; or they may contain a statement of the minimum and maximum quantities required by the manager, which are based on past sales or special demands, and the quantities received since last report, besides any other information that may be desired.

Stock reporting, also, serves to guard against " overstocking."

INVENTORIES, AUGUST 31, 19—

Merchandise	$23825.05
Shipping Supplies	196.50
Office Supplies	182.75

ADJUSTING ENTRIES, AUGUST 31, 19—

(*a*) Set aside a reserve for depreciation of furniture and fixtures of 1% of the cost.

This is accomplished by an entry in the journal debiting Depreciation of Furniture and Fixtures and crediting Reserve for Depreciation of Furniture and Fixtures.

(*b*) Set aside a reserve for depreciation of horses and wagons of 1% of the cost. (Make a journal entry same as under (*a*).)

(*c*) Insurance expired $7.50. (Debit Insurance Expense and credit Insurance.)

(*d*) Interest accrued on Notes Receivable, $12.75. (Debit Interest Accrued on Notes Receivable and credit Interest on Notes Receivable.)

(*e*) Interest accrued on Notes Payable, $166.67. (Debit interest on Notes Payable and credit Interest Accrued on Notes Payable.)

(*f*) Rent due on flat, $100. (Debit Rent Receivable and credit Rent Income.)

(*g*) Interest on partners' investment and withdrawals, figured at 6% per annum. (Debit Interest on Capital and credit each partner's drawing account with his share.)

(*h*) Set aside 1% of Accounts Receivable as a Reserve for Bad Debts.

CLOSING THE BOOKS

You will now proceed to close the books as of August 31, 19— and prepare financial statements. Following is the work required in the order in which it should be done.

1 Make and post adjusting entries.

2 Take an adjusted trial balance.

3 Profit and Loss Statement August 1 to August 31, 19—. Prepare from the adjusted trial balance and from Inventories. (Use model form on page 241.)

4 Balance sheet, August 31, 19—. (Use model form on page 242.)

5 Closing entries, August 31, 19—. (In closing the ledger make use of the Trading account as explained on page 243. Close the partners' Personal accounts into their Capital accounts.)

6 Post closing entries and balance and rule general ledger accounts.

7 Frame journal entries closing the accrual accounts, Interest Accrued on Notes Receivable, Interest Accrued on Notes Payable, and Rent Receivable, and to close Sundry Inventories account, transferring the amounts to Interest on Notes Receivable, Interest on Notes Payable, Rent Income, Shipping Supplies, and Office Supplies.

8 Take a proof trial balance.

Dow, Jones & Company

Profit and Loss Statement, August 1—August 31, 19—

Sales		$8205.60	
Less: Returns		643.48	
Net Sales			$7562.12
Deduct:			
Cost of Sales			
Inventory, August 1, 19—		$27598.69	
Purchases, 8/1–8/31	$2763.47		
Less: Returns	156.66	2606.81	
Freight In		126.98	
Total Cost		$30332.48	
Less:			
Inventory, August 31, 19—		24641.85	5690.63
Gross Profit on Sales			$1871.49
Deduct:			
Selling Expenses:			
Traveling Expenses	$435.		
Shipping Department Salaries	150.		
Delivery Expenses	131.34		
Shipping Supplies used	49.90	$766.24	
General Administrative Expenses:			
Office Salaries	$475.		
Office Supplies Used	80.50		
General Expenses	32.62		
Rent	200.		
Insurance	15.		
Depreciation of Furniture and Fixtures	35.		
Depreciation of Horses and Wagons	15.	853.12	1619.36
Net Profit from Operations (forward)			$252.13
Add:			
Other Income			
Discount on Purchases		$436.13	
Interest on Notes Receivable		21.57	
Rent Income		100.	557.70
Total Income			$809.83
Deduct:			
Other Charges			
Interest on Notes Payable		$27.38	
Discount on Notes		31.09	
Discount on Sales		53.96	
Bad Debts		165.	277.43
Net Profit			$532.40
Distributed as follows:			
Interest on Capital — Dow	$213.59	451.03	
Interest on Capital — Jones	179.83		
Interest on Capital — Cox	57.61		
Dow, ⅓ net profit		27.12	
Jones, ⅓ net profit		27.12	
Cox, ⅓ net profit		27.13	$532.40

DOW, JONES & COMPANY

BALANCE SHEET, AUGUST 31, 19—

ASSETS

Current Assets			
Cash		$9088.81	
Notes Receivable		2577.84	
Interest Accrued on Notes Receivable		21.57	
Accounts Receivable	$13596.24		
Less:			
Reserve for Bad Debts	165.	13431.24	
Merchandise Inventory		24641.85	$49761.31
Investments			
United Dry Goods Stock		10837.50	
Real Estate (tenement 61 Jones Street)		10325.	21162.50
Fixed Assets			
Horses and Wagons		825.	
Furniture and Fixtures		3275.	4100.
Expense Items Paid in Advance			
Shipping Supplies		279.80	
Office Supplies		235.25	
Insurance Unexpired		135.	650.05
Total Assets			$75673.86

LIABILITIES AND CAPITAL

Current Liabilities			
Notes Payable		$15400.	
Interest Accrued on above		192.53	
Accounts Payable		17354.02	
Total Liabilities			$32946.55
Capital			
Dow — Balance 8/1	$21372.87		
Add:			
Interest on Capital	213.59		
1/3 net profit	27.12		
	$21613.58		
Less:			
Personal account balance	225.	$21388.58	
Jones — Balance 8/1	$15087.04		
Add:			
Interest on Capital	179.83		
1/3 net profit	27.12		
	15293.99		
Less:			
Personal account balance	175.	$15118.99	
Cox — Balance 8/1	$6000.		
Add:			
Interest on Capital	57.61		
1/3 net profit	27.13		
Personal account credit balance	135.	$6219.74	$42727.31
Total Liabilities and Capital			$75673.86

The Trading Account. — In closing the books the Trading account is often used to bring together all accounts used in determining the gross profit on sales. It is subsidiary to the Profit and Loss Account.

The following is the function of the Trading account.

TRADING

Debit:	Credit:
(*a*) Inventory at the beginning	(*a*) Sales for period
(*b*) Purchases for the period	(*b*) Returned Purchases and Allowances
(*c*) Returned Sales and Allowances	(*c*) Inventory at end of period
(*d*) Freight Inward	

The balance will be the gross profit on sales and is transferred to the Profit and Loss account by an entry debiting Trading and crediting Profit and Loss.

WHOLESALE DRY GOODS BUSINESS — Continued

PRELIMINARY WORK

SEPTEMBER 1, 19—

Henry W. Taylor has this day withdrawn from the firm of Taylor, Wood & Co., and a new firm has been formed, consisting of Clark F. Wood, (Student), and Frank H. Taylor, to continue the business heretofore conducted under the name of Taylor, Wood & Co. Henry W. Taylor has assigned his interest in the old business to Frank H. Taylor as of this date, and articles of copartnership have this day been executed by the partners of the new business.

According to the articles of copartnership the new partnership agreement is the same as the old one (see page 226), excepting that Wood is to receive a salary of $200 a month, (Student), $225, and Frank H. Taylor, $150. There is to be no change in the style of the firm name, and the capital of the new firm is to be the same as that of the old one, as shown by its books, closed as of Aug. 31, 19—. The capital of Henry W. Taylor in the old business is to become the investment of Frank H. Taylor in the new business. The books of the old firm are to be used as the books of the new firm, and are to be closed annually, as of September 30.

Make a brief statement of the above conditions in your journal under date Sept. 1, 19—, and frame an entry to transfer Henry W. Taylor's interest to Frank H. Taylor, making proper explanation of the entry. Post the entry, and rule off the account of Henry W. Taylor. Set up the new capital account under the old one.

Books Kept. — You will use the same books for September as you did for August, excepting the sales book, which will be replaced by the sales journal.

TRANSACTIONS

SEPTEMBER 1

No. 82 Check from Isaac Holman & Sons in payment of note due to-day.

No. 83 A, B, C. Duplicate charge bills. Jas. H. Wood & Son; Thompson & Bulkeley; Sibley & Co. Enter the bills in the sales journal, beginning with the number 100, and number all succeeding bills consecutively.

Head your sales journal, *Sept. 1, 19—*. Enter only the serial number of the bill, name of the purchaser, and the amount of the bill, extending the amount into the Items column and the daily total into the Total column. The separate entries in the sales journal will not be posted, but the footing will be posted at the end of the month.

Post from the charge bills directly to the accounts in the sales ledger, in the daily posting, and check the folio of the account on each bill to indicate that it has been charged. Remember to enter the terms in the account. Cash sales bills will not be entered in the sales journal. Place the bills in your Voucher File.

No. 84 Send H. R. Judson, your traveling salesman, check for $75 for traveling expenses.

September 2

No. 85 Cash from E. B. Kerns for rent of flat, #74 Center St., August and September, $200.

No. 86 Check from Levy & Garson for invoice of Aug. 25, less 6%.

No. 87 Invoice from Burke, Fitz Simons, Hone & Co. Enter the invoice in the purchases journal. Number this invoice 8.

Head your purchases journal the same as you did your sales journal, number the entries consecutively, and enter only the name of the creditor and the amount of the invoice. Write the entry number on the upper right-hand corner of the invoice. The separate entries in the purchases journal will not be posted, but the footing of the book will be posted at the end of the month. Post from the invoices directly to the accounts in the purchases ledger, in the daily posting, and place the folio of the account on each invoice to indicate that it has been credited. Remember to enter the terms in the account.

No. 88 Pay invoice Burke, Fitz Simons, Hone & Co., due to-day, as follows: Deduct from the amount of the invoice the charge for goods returned on Aug. 11, as per ledger, and from the balance deduct 1%, as per terms of bill. Write a check for the net amount.

No. 89 An order was received to-day from Ingham & Case, but as they owe a balance which has been running a long time, it was not deemed advisable to sell them more goods on account. In response to our telegram they instructed us to ship the goods subject to bank order, and allow special cash discount.

No. 89 a Make a sight draft favor of Commercial Bank for the net amount of the bill, pin it to the bill of lading, and leave both at the bank for collection. Treat the transaction as a charge sale.

No. 90 Duplicate charge bill. C. H. Roberts.

No. 91 Check from Harris & Smith to apply on account.

September 5

No. 92 Duplicate cash bill. Weston & Hill, City (check). Enter in cash book only.

No. 93 Deposit all checks.

No. 94 Duplicate charge bill. W. O. Harrison; terms, 6% 10 ds., 5% 30 ds.

September 6

No. 95 Invoice from Burke, Fitz Simons, Hone & Co. (See No. 87.)

No. 96 Pay Little Falls Woolen Co., by check, for invoice of August 12, $163.22, less 1%.

No. 97 This check from Jas. H. Wood & Son is on account.

SEPTEMBER 7

No. 98 Check from Sibley & Co. is in full for bill of July 25.

No. 99 A, B, C. Duplicate charge bills. B. C. Wiley; Carlton, Sons & Co.; L. H. Parker.

No. 100 Duplicate charge bill. Burke, Fitz Simons, Hone & Co. for goods returned.

No. 101 Check from Brown & Wilson for note due to-day.

SEPTEMBER 8

No. 102 Invoice from Sibley, Lindsay & Curr Co.

No. 103 Send check to Sibley, Lindsay & Curr Co., for note due to-morrow.

SEPTEMBER 9

No. 104 Mr. Taylor draws $200 from the business, by check, for personal use.

No. 105 Note from Harris & Smith to apply on account.

No. 106 Received notice from your bank that the draft of 3d inst. on Ingham & Case has been paid.

NOTE. — When in doubt as to how to classify a transaction, refer to the entry of a similar transaction in the August work.

SEPTEMBER 10

No. 107 Bill from L. H. Parker, Lima, for goods returned. Send L. H. Parker a credit memorandum.

No. 108 Mr. Wood draws $250, by check, for personal use.

SEPTEMBER 12

No. 109 A, B. Duplicate cash sales bills. T. D. Winch, and Allen & Co.

No. 110 Deposit $300 currency and all checks.

No. 111 Send Sibley, Lindsay & Curr Co. a check for $4484.23, in payment of invoice of July 14.

No. 112 Ingham & Case have paid no attention to letters from Mr. Taylor regarding the settlement of their account. Make a sight draft on them for $66.35 and leave it at the bank for collection. Write in pencil, in their account in the ledger, *Sight draft, 9/12.*

SEPTEMBER 13

No. 113 Check from W. O. Harrison for bill of Sept. 5, less 6%.

No. 114 Pay cash for stamps and office supplies, $10.

No. 115 Check from Lewis W. Chase to apply on account.

SEPTEMBER 14

No. 116 Draw for your own personal use, $150, by check.

No. 117 Invoice Gimbel Bros.

No. 118 A, B, C. Duplicate charge bills. J. G. Smith; Lewis W. Chase; Levy & Garson.

No. 119 Discount the invoice of Granite Mills, dated Aug. 15, and send check for the net amount.

No. 120 Duplicate charge bill. Gimbel Bros.

No. 121 A, B. Duplicate cash sales bills. E. H. Marcy & Co.; Wallace Bros. (check).
No. 122 Pay shipping clerk hire, $35, and office help, $40, in cash.
No. 123 Pay freight bills to date, per agent's request, by check, $27.45.

SEPTEMBER 17

No. 124 Check W. O. Harrison is for note due to-day.
No. 125 Deposit all checks.
No. 126 The bank informed you, at time of making above deposit, that your draft of the 12th inst. on Ingham & Case has been returned unpaid. No reason assigned.
Write in lead-pencil, in their account in your ledger, *Draft returned, 9/17.*

SEPTEMBER 19

No. 127 Invoice from Little Falls Woolen Co.
No. 128 Pay rent for September, $300, by check.

SEPTEMBER 20

No. 129 You have outstanding an interest-bearing note, due to-day, and, as you have not enough funds to meet it, the bank has agreed to renew one-half of the face of the note for 10 days.
Make your note at 10 days (with interest), in favor of the Commercial Bank, $5000. Receive credit for the face of the note. Enter in the notes payable book, and add to your deposit on stub of the check book. (Date the note to-day, and have your teacher indorse it.)

You have in effect discounted a note at the bank and received credit for the proceeds. Therefore you have increased your bank balance that amount.

No. 130 Draw a check, in favor of the Commercial Bank, in full for the old note as above and four months' interest. This is your first "renewal," and you should study the transaction carefully.
No. 131 Check from W. B. Snow to apply on account.

SEPTEMBER 21

No. 132 Note received from Lewis W. Chase on account.
No. 133 Discount the note received from Lewis W. Chase to-day, and receive credit for the proceeds.
No. 134 A, B, C, D. Duplicate charge bills. Jas. H. Wood & Son; Thompson & Bulkeley; Sibley & Co.; Brown & Wilson.

SEPTEMBER 22

No. 135 Check received from J. G. Smith is on account.
No. 136 Deposit the checks on hand.

SEPTEMBER 23

No. 137 Mr. Taylor draws cash, $50, for private use.
No. 138 Check from B. C. Wiley to apply on account.
No. 139 Invoice from Sibley, Lindsay & Curr Co.
No. 140 Invoice from Burke, Fitz Simons, Hone & Co.

SEPTEMBER 24

No. 141 Pay grain and feed bills in cash, $16.75.

No. 142 Check from J. G. Smith for bill of 14th inst., less 6% discount.

No. 143 Pay Burke, Fitz Simons, Hone & Co., by check, for invoice of Aug. 31, less 5%.

SEPTEMBER 26

No. 144 Duplicate charge bill. W. B. Snow; terms, 2% 10 ds., 1% 30 ds.

No. 145 Send Gimbel Bros. check for note due yesterday.

When notes or other obligations mature on Sunday, it is customary to pay them the following day, but in the states where days of grace are yet allowed they are payable on the preceding day.

No. 146 Check from Levy & Garson in payment of invoice of 14th inst., less 2%.

No. 147 Duplicate charge bill. Carlton, Sons & Co.

No. 148 Check from Darius D. Miner for $5000. This money has been raised to meet the " renewal " note due in a few days at the bank, and was borrowed on the firm's demand note, with interest, 6%, secured by first mortgage on the flat at 74 Center St. Make the note, and the proper entries for the transaction.

Apparently the firm has issued liabilities of double the value of the asset received, but since the payment of the mortgage is conditional on the non-payment of the note, the liabilities have actually been increased by only the amount of the increase in the assets.

Since the money was obtained on the note and not on the mortgage, Mortgage Payable account is not, of course, charged at this time.

No. 149 Deposit cash, $200, and all checks.

SEPTEMBER 28

No. 150 Pay freight bills to date by check, $20.14.

No. 151 Pay cash for shipping clerk hire, $30; teamster, $45; office help, $40.

No. 152 Pay telephone bill by check, $15. (Office Expenses *a/c.*)

SEPTEMBER 30

No. 153 Draw cash for your own personal use, $40.

No. 154 Pay, by check, note and interest due at bank to-day.

No. 155 Pay H. R. Judson his salary for September by check, $150.

No. 156 Pay rent of stable for September, $50, by check, favor of B. F. Nolan.

Make proper entry for salaries due the partners.

Construct a controlling account in each of your subsidiary ledgers, thereby making them self-balancing. (See Self-balancing Ledgers, page 224.)

Complete the daily posting and prove the cash. Foot, post and rule off all books of original entry, as in the work for August. Take a trial balance of the general ledger and of each of the subsidiary ledgers, and see if the subsidiary ledgers are in agreement with the controlling accounts in the general ledger.

Use loose journal paper for your subsidiary trial balances, and remember to include only the current balances.

No. 156 a Assuming that the checks issued Sept. 28 and 30, excepting No. 154, are outstanding, make a bank voucher slip, balance your pass book, and reconcile your bank balance.

Dissolution of Partnership. — It has been apparent to your partners and yourself that the present conditions in the trade, and the outlook for increasing the business, do not justify a continuance of three active partners. Therefore it has been decided that Mr. Wood will withdraw from active management, leaving his capital in the business, and that you will retire from the firm on Oct. 1, to engage in the shoe manufacturing business.

INVENTORIES

Merchandise	$22372.76
Shipping Supplies	93.25
Office Supplies	106.50

ADJUSTMENTS

(*A*) Set aside 1% of cost of Furniture and Fixtures as a reserve for depreciation.
(*B*) Set aside 1% of cost of Horses and Wagons as a reserve for depreciation.
(*C*) Set aside $\frac{1}{2}$ of 1% of the amount of gross sales for September as a reserve for bad debts.
(*D*) Insurance expired amounts to $7.50.
(*E*) Interest on Partners' Investments and withdrawals for September.
(*F*) Interest accrued on Notes Payable.

You will now proceed to prepare financial statements as of September 30, 19— and close the books. Following is the work required in the order in which it should be done.

1 Make and post adjusting entries
2 Take an adjusted Trial Balance
3 Prepare Profit and Loss Statement
4 Balance Sheet
5 Closing entries
6 Frame journal entries closing the accrual account, Interest accrued on Notes Payable, and to close Sundry Inventories account, transferring the amounts to Interest on Notes Payable, Shipping Supplies, and Office Supplies.
7 Balance and rule ledger accounts and take a proof trial balance. Close the partners' drawing accounts into the capital accounts and balance the capital accounts.

EXERCISES

1 What is the purpose of the Trading account? What items does it contain? To what conclusion does it lead?

2 Compare the method of closing the accounts of trading operations through the Trading account, as illustrated in the Dry Goods exercise, with the method used in former exercises. Which method is preferable? Why?

3 Rule one side of a half sheet of cap paper to represent a page of a general ledger, and then construct a Trading account. From their respective accounts in your ledger, transfer by direct entries such items as will cause the account to show the merchandising results for August. Balance and rule off the account, transfer the gain, and bring down the current inventory. Next cause the account to show the merchandising results for September. Balance and rule off the account the same as for August.

4 The check book of the Bigelow Dry Goods Company on October 31 showed an overdraft of $53.92, and the bank pass book when written up as of that date showed a credit balance of $416.27. The deposits and collections for November amounted to $13751.84, and the checks issued amounted to $8527.39. When the pass book was written up for November,

it showed a credit balance of $6532.28. The checks outstanding were: #389, $156.82; #412, $1117.81; #415, $87.12.

Rule a form of check book stub, and show how you would reconcile the bank balances on October 31 and November 30, using the above figures.

5 Your bank has notified you that the check of J. T. Carpenter, in your deposit of February 28, contains a discrepancy of $10 between the amounts as expressed in words and in figures. You find upon investigation that Carpenter was credited from his letter, which accompanied the remittance, for $132.75, the amount as expressed in words, and that the check was included in the deposit for the amount $122.75, as expressed in figures. Frame proper entries to adjust the discrepancy, which will affect the Cash Differences account, and the bank account.

6 Assume that you have been keeping a General Expense account for all expenses, except selling expenses, and that you have a General Expense column in your cash book. You are instructed to submit an analysis of the General Expense account, to be used in making up a semiannual Trading and Profit and Loss Statement, and are informed that the subdivision of the General Expense account is to be as follows: Office Supplies, Office Expenses, Office Salaries, Shipping Supplies, Shipping Expenses, Delivery Expenses, Rent, Miscellaneous Expenses.

Prepare an analysis sheet by ruling as many money columns on a sheet of cap paper as you have subdivisions of the account to be analyzed, and head each column with the name of a subdivision.

Assume that your cash book shows the following general expense entries for the period: Boxes, $14.25, $17.10, $13.05, $24.60. Automobile repairs, $3.75, $7.50, $18. Store rent, $200, $200, $200, $200, $200, $200. Gasoline, $3.60, $4.50, $1.80, $9. Stationery, $12.50, $26.30, $3.85, $14.60. Office salaries, $750, $750, $675, $725, $875, $775. Shipping Department salaries, $325, $325, $450, $425.75, $375, $410. Typewriters, $100, $162.50. Nails and bands, $3.25, $6.15, $8.50. Garage rent, $25, $25, $30, $30, $25, $25. Postage, $5, $3.75, $5, $10. Telephone, $10, $10.75, $11.25, $10, $13.25, $10.85. Typewriter repairs, $1.75, $2, $1.25. Typewriter ribbons, $4.80, $2.50. Wages, chauffeur and helper, $100, $95, $100, $105, $100, $90. Taxes, $113.75. Insurance, $68.75. Pens, pencils, etc., $1.10, $.75, $2.25. Telegrams, $.40, $.25, $.72, $.45, $.30, $.25, $.60, $.93. Electric light, $4.25, $4, $3.75, $3.60, $3.25, $2.75. Roll-top desk and chair, $85. Rubber tires, $70, $36. Extra trucking, $3.75, $4.25, $2.50, $7.25. Wrapping paper and twine, $14.25, $1.85, $3.60.

Carry the above items to the proper columns on the analysis sheet, total the columns, and make the required analysis on a separate sheet.

7 Goodwin & Mackey had merchandise on hand July 1, 19—, inventoried at $12209.26. They dissolved partnership August 31 of the same year. Their net purchases, including freight, during July and August were $6928.34, and their net sales, $13775.50. Their stock on hand August 31 was inventoried at $6353.50. Prepare a Trading section of a Trading and Profit and Loss Statement, and show the gross profit on trading, and the percentage of gross profit on the turnover.

8 The merchandise inventory schedules of James Sheffield & Company on June 30, 19—, were as follows: Furnishing Goods, $1458.50; Gloves and Mittens, $1804.50; Knit Goods, $1990.75. Their net purchases during the period were: Furnishing Goods, $1391.25; Gloves and Mittens, $1600.50; Knit Goods, $3987.25. Their net sales were: Furnishing Goods, $3303.60; Gloves and Mittens, $3919.60; Knit Goods, $6555.25. Their stock on hand at the beginning of the period was as follows: Furnishing Goods, $2500.90; Gloves and Mittens, $2600.50. Knit Goods, $3500.50. Construct separate accounts for each department, and show the gross profit on trading, and percentage of profit on each class of goods.

9 Using the data in No. 8, prepare a Trading section of a Trading and Profit and Loss Statement, and show the gross trading profit and the percentage of the profit of each department, the total gross trading profit, and the percentage of total gross profit on the total turnover.

10 From the data given on the Profit and Loss section of your Trading and Profit and Loss Statement for September, prepare a Profit and Loss section which will show the selling expenses, and the percentage of cost for selling, based on the turnover; the actual general and administrative expenses, and the percentage of cost for conducting and administering the business based on the turnover.

In doing this work distinguish between allowances and expenditures. Complete the Profit and Loss section.

11 The assets and liabilities of D. F. Beattey & Co. for the period ended December 31, 19—, were as follows: Assets — Cash on hand, $43.29; In bank, $6790.24; Notes Receivable, $9909.76; Accounts Receivable, $8552.76; Real Estate, $6000; Merchandise, $6713.30; Furniture and Fixtures, $1789.48. Liabilities — Accounts Payable, $1736.16; Notes Payable, $2000. The partners' accounts were as follows: D. F. Beattey, Capital, $20000; Personal (Debit balance), $480. E. H. Sprague, Capital, $15000; Personal (Debit balance), $433.67. The open nominal accounts were: Debits — Discounts on sales, $302.57; Interest, $21.34; Agents' Salaries and Expenses, $764.12; Office Salaries and Expenses, $564.80. The net purchases were $8514.27, and the net sales, $13009.57. The merchandise on hand at the beginning of the period was inventoried at $7362.91; real estate at $6180; and furniture and fixtures at $1826.

From the above data make a Trial Balance, a Trading and Profit and Loss Statement, and a Balance Sheet.

The following exercises are given for use in schools which have adding machines:

12 Prove the charge postings to your sales ledger for August, by listing, first, the charge sales from your sales book, and second, the charge entries in the ledger, and comparing the totals of the two lists.

13 Prove the credit postings to your sales ledger by listing, first, the credit payments by customers from the cash book and journal, and the return sales; and second, the credit entries in the ledger, and comparing the totals of the two lists. Compare the difference between the above charge entries list and the credit entries list, with the balance of Accounts Receivable accounts as shown in your balance sheet for August.

14 Prove the credit postings to your purchases ledger for September by listing, first, the purchases in purchases journal; and second, the credit entries in the accounts, and comparing the totals of the two lists.

15 Prove the debit postings to your purchases ledger by listing, first, the payments to creditors from your cash book and journal, and the return purchases; and second, the debit entries in the accounts, and comparing the totals of the two lists. Compare the difference between the above credit entries list and the debit entries list, with the balance of the Accounts Payable account, as shown by your balance sheet for September.

16 Prove your bank balance for September as shown by your check book by listing, first, your deposits and collections from your check book stub, and second, the checks, from the vouchers, and comparing the difference between the totals of the two lists with the balance shown in the check book.

QUESTIONS

1 What is wholesaling?
2 From what do wholesalers chiefly obtain their revenue?
3 What is the principal revenue account of a mercantile business?
4 What is meant by "trading"? By "turnover"?
5 Describe the form of journal used in the Wholesale Dry Goods business, and explain the posting.
6 Describe the cash book, and explain the posting.
7 How may the cash be proved at any time, when this form of cash book is used?
8 What is a purchases journal?
9 Describe the sales journal.
10 Explain how the posting is done from these two books. Explain the bill and charge system.
11 Describe the auxiliary ledgers used in this work.
12 How may accounts with customers be divided when sectional sales ledgers are used?
13 What is a private ledger?
14 What controlling accounts did you construct in this work?
15 Upon what do the accounts to be kept in any business usually depend? What determines the special accounts to be kept?
16 What is the principal deduction from revenue in a mercantile business? How may the account which it represents be divided?
17 Explain "analyzing an account."
18 How are accounts usually divided? Explain each division.
19 Define assets and liabilities. Explain fixed assets; floating assets; fixed liabilities; floating liabilities.
20 When a legal change takes place in the ownership of individual or partnership business, what is the effect, and what must be done?
21 Is it necessary to open a new set of books when such a change takes place?
22 How would a new set of books be opened?
23 What are supporting records?
24 What is a shipper's order? Explain the difference between this and a C.O.D. express shipment.
25 What are return books? Explain how returns are treated in this work.
26 What are the different classes of expenses? Explain each.
27 When are merchandise inventories usually taken? For what purposes? At what price?
28 How can the true profits of any business period be determined?
29 What is a "trading and profit and loss statement"? Explain each section in detail.
30 What is the difference between the terms "gross profit on trading" and "net profit on trading"?
31 What are reserves? Explain "depreciation."
32 What is a balance sheet?
33 How are the assets and liabilities usually arranged on a balance sheet in a mercantile business?
34 What is the principal difference between a profit and loss statement and a balance sheet?
35 What are "quick assets"? Give some examples.
36 How is the general ledger closed in this work, and in accordance with what accounting axiom?
37 Why are not the partners' capital accounts closed by passing the entries through the journal, instead of by making direct entries?
38 What is a post-closing trial balance?
39 What new features of bookkeeping and accounting have you learned in this work?

CORPORATIONS

A **Corporation** is an artificial body created by law for certain purposes, which are stated in its charter, or articles of incorporation. It is composed of individuals, and differs from a partnership chiefly in that it is limited in its activities to the specific purposes for which it was created; that it has a capacity of perpetual succession; and that the members which compose it are not liable for the debts of the corporation, excepting in certain cases, and then only for a limited sum.

Corporations are divided into two general classes; namely: public corporations, which are created for the purposes of government and the management of public affairs; and private corporations, which are created for private purposes, and the management of private affairs in which the members are interested. Some private corporations are engaged in enterprises which are of a public nature, but which are conducted and managed for private purposes or private gain. Some of these corporations, such as railroad, gas, water, telegraph, telephone, and street car or traction companies, etc., are called "public service corporations." Banks, trust companies, and insurance companies are called "financial corporations," and those engaged in manufacturing or trading are called "business corporations." Only business corporations will be treated in this work.

Business Corporations. — Until comparatively recent times, most of the manufacturing and trading done in this country was conducted under two forms of management; namely, the single proprietorship form, and the partnership form. Each of these forms possesses certain advantages and disadvantages as compared with the corporate form. Among the advantages are: the ease with which they may be established, the freedom of action allowed, and the benefit to the business from the active, personal efforts of the proprietor or partners. The disadvantages are: the usual inability of a single proprietor or of several partners to command the necessary capital to conduct a large enterprise; liability of the individual owner, or of each member of a firm, for all the debts of the concern; and the dissolution of the partnership, and the possible discontinuance of the business, upon the withdrawal or death of a partner.

For the development of great natural resources, and for the distribution of both natural and manufactured products to meet great demand, large capital and organized effort are required, and these are usually best obtained by the corporate form of business. During recent years the corporate form has made great strides in this country, until now it dominates most of the important lines of business, such as mining, manufacturing, merchandising, or trading, as well as transportation and other public service activities.

Holding Companies. — A corporation which is formed for the purpose of controlling other corporations is called a "holding company"; corporations so controlled are called "subsidiary companies." The larger part of the stock of each subsidiary company, or in some cases all of it, is transferred to and owned by the holding company, which issues its own stock in exchange. The subsidiary companies retain their corporate identities, and declare dividends like other corporations. The holding company may thus have a large income, which is distributed in dividends to its stockholders.

Subsidiary companies are operating concerns; the holding company is usually an executive concern. Some of the larger corporations partake of the nature of holding companies, as they both control other corporations and operate separate plants or systems. Holding companies are monopolistic in nature, and their creation and conduct are closely regulated by law.

Trusts. — A combination of business corporations formed for the purpose of controlling the output, and maintaining a monopoly of any product or products, and fixing the prices of the same, is called a "trust." Some business corporations, owing to their practically unlimited capital, enormous output, wide activities, and their control of a large part of the kinds of products which they handle, are commonly called trusts.

Corporations: How Created. — Formerly corporations were created by special acts of the legislatures, but the statutes of all of the states now provide other methods for the formation of corporations.

Government Supervision. — Corporations, being creatures of government, are subject to the supervision of the power which created them. The supervision is expressed in their charters, and in various acts of the legislatures, and is exercised by special governmental bodies, such as Railroad Commissions, Public Service Commissions, etc. Corporations which do an interstate transportation business are subject to the supervision of the national government, and this supervision is exercised by the Interstate Commerce Commission.

The extent of the supervision of corporations differs in the various states. In some states, it is comparatively slight; while in others it amounts to the control of such important matters as issuance of stocks and bonds, method of accounting, forms of reports or statements, rates for services, and in some instances, maximum or specific prices of products. The Interstate Commerce Commission has power to control the rates of railroads which do an interstate business.

Corporations: How Formed. — Corporations are formed in accordance with the requirements of the statutes concerning corporations, and these differ more or less in the various states. A corporation may be formed in the state in which it is domiciled, that is, in which it has its main office, or it may be formed, unless the statutes restrict, under the laws of any other state. A corporation formed in the state in which it is domiciled is called in that state, a "domestic corporation," and in all other states, a "foreign corporation."

The statutes of the various states specify how many persons are required to organize a corporation. In most states, at least three persons of full age must unite to form a corporation; in some states, five or more are required; and in at least one state, any number may so unite. These persons meet and make a certificate of incorporation which usually contains: the name of the proposed corporation; purpose or purposes for which it is formed and location of its principal business office; amount of capital stock, kinds of stock, and number and par value of its shares; duration of incorporation; number of directors; and such other information as the statutes may require.

Public corporations, and some private corporations, as hospitals, colleges, etc., do not issue stock, and are called "non-stock corporations."

After the certificate of incorporation has been signed by the incorporators, and acknowledged before a notary public or some similar officer, it is then submitted to a proper state officer, usually the Secretary of State, who, if he accepts it, indorses it to that effect and returns it to the incorporators.

When the incorporation fees and the annual tax have been paid, the certificate, accompanied by the State Treasurer's receipt, is then filed in the office of the County Clerk (or other recording officer) of the county in which the principal business office of the company is to be located. Some states require that the certificate of incorporation shall be filed in all the counties

of the state in which the corporation intends to do business. Foreign corporations are required to file a certificate of designation with the Secretary of State.

After the certificate of incorporation has been filed, subscription books are opened and the capital stock is disposed of by subscription or otherwise. If the corporation is to be formed to take over a going business, the subscription list is usually dispensed with, the former subscriptions of the incorporators taking its place.

A certain amount must be subscribed for and paid before the corporation is permitted to begin business. After such stock has been subscribed for, and such payment has been made as required by the statutes or stated in the certificate, a meeting of the stockholders is called, at which the officers are elected and by-laws are adopted. The record of these proceedings is filed with the Secretary of State, and a certificate is issued by him to the effect that the corporation is fully organized and authorized to do business under the laws of the state. In a few states, the statutes require that the meeting of the incorporators and the arranging of the organization must take place before the application for the charter is filed.

Kinds of Stock. — The capital stock of a corporation is divided into shares, each share representing a proportionate part of the authorized capital. In this country the shares of a business corporation are usually of two kinds, called " preferred stock " and " common stock." Preferred stock is stock to which some preference has been given, such as regards the payment of dividends, or the assets in case of liquidation, over other stock issued by that corporation. There may be more than one kind of preferred stock, such as first preferred, second preferred, etc. The dividends payable on preferred stock are usually limited in amount; they may be either cumulative or non-cumulative. If cumulative, the stated dividends attach to the stock each year whether or not they are earned, and all arrearages of such preferred dividends must be paid before the common stock receives any dividend. Non-cumulative dividends do not attach to the stock during any period when they are not earned.

Common stock is the ordinary stock of a corporation, with neither special privileges nor restrictions. When all the stock is on the same equality as to voting, dividends, and participation in assets, it is common stock.

When there is more than one issue of stock, it is customary to keep separate accounts for each issue, as Preferred Stock, First Preferred Stock, Second Preferred Stock, Common Stock, etc.

The amount of stock authorized as specified in the charter is called the " capital stock of the corporation." The amount of stock subscribed, paid for, or issued is the " paid-up capital," also called the " outstanding stock " Stock which has been issued and has afterwards been purchased by, or donated to, the corporation is called " treasury stock." Stock which has not been subscribed for and not issued is sometimes called treasury stock, but since such stock has no existence, it can have no value, and therefore should not be treated as an asset. Such stock is called " unissued stock."

Stock Certificates. — The shares of stock in a corporation are issued in the form of certificates, each of which states the kind of stock, par value, and the number of shares which the certificate represents. Stock certificates are transferable by assignment, either wholly or in part, at will, but such transfer is not complete until the proper record has been made on the books of the corporation.

Bonds. — A bond is an obligation, and is in effect a promise to pay a certain sum and interest on the same; the amount of the sum, the date of payment, the rate of the interest and when payable, being specified in the bond. It is one of the functions of corporations to issue

bonds, and the bonds of business corporations are usually issued against tangible assets. To secure payment of these bonds, the corporation is required by statute to execute a mortgage, or some other form of lien on its property, to some trustee or trustees, to be held as security for the payment of the bond at maturity, and of the interest as it falls due.

Bonds are issued for the purpose of raising funds for the use of the corporate business, and in accordance with the provisions of the statutes, and with the consent of the stockholders.

Forms of Bonds. — There are two general forms of bonds; namely, coupon bonds and registered bonds. Coupon bonds are usually payable to bearer, and have interest coupons attached which are also payable to bearer, and which are promises to pay the amount of interest due at each interest period, as specified in the bond. Registered bonds are bonds which are issued in the names of particular persons, and are transferable only on the books of the corporation. Interest on registered bonds is paid only to persons in whose names the bonds appear on the books of the corporation, or to their assignees. Some coupon bonds are registered as to the principal of the bond, the coupons being payable to bearer.

Kinds of Bonds. — Bonds are of various kinds, and are usually designated by the nature of the lien by which they are secured, or by the more important or distinctive feature of the issue, such as mortgage bonds, equipment bonds, sinking fund bonds, income bonds, convertible bonds, debenture bonds, etc.

From a bookkeeping standpoint, bonds are treated the same as are notes payable or mortgages payable, a general Bond account or separate accounts for each kind being constructed.

Sinking Fund. — A fund created out of net earnings and set aside for the purpose of paying off a fixed obligation at maturity is called a "sinking fund." The money so set aside is taken out of the business and either deposited with a trustee or invested in marketable interest-bearing securities. Such money is called "invested capital" to designate it from "working capital," or the capital actively used in the business. A sinking fund is an asset to the business.

For commercial purposes the usual way of providing a sinking fund sufficient to pay off a bonded indebtedness is to set aside each year from earnings either a proportionate part of the amount of the debt for the number of years the bonds have to run, or such a sum as will, with accumulated interest, amount in the given number of years to the amount of the bonds.

In both cases, the sum set aside each year would be immediately invested. The rate of interest on the investments in the second case would be that necessary to accomplish the purpose of the fund, and the interest would be credited to Sinking Fund account. The interest on the investment in the first case would be credited to a revenue account, and the interest on the bonds charged to a Revenue Expense account.

Dividends. — The profits and losses of a corporation are found through the Trading and Profit and Loss accounts, the same as in any other business, and the net profits are carried to the Surplus account. The division of profits among stockholders is made by means of dividends, which are declared at fixed percentages, such as $1\frac{1}{2}\%$, 3%, 6%, etc., on the outstanding stock. Dividends are payable only to stockholders of record at the time the stock books are closed, or at specified dates, excepting in cases of a few stocks which have coupons attached to the certificates, when the dividends are paid on presentation of the coupons.

Separate accounts are usually kept for different classes of dividends, when there is more than one kind of stock, as Preferred Dividend account, Common Dividend account, etc.

Surplus. — The term "surplus" usually applies to a portion of the profits withheld from distribution, either for the purpose of establishing a permanent addition to the capital of the

corporation, or for such other purposes as the board of directors may designate. In practice, as above stated, the net profits are carried to Surplus account, and after the dividends have been charged to it, the balance is the actual surplus for the period. The surplus frequently serves to enable business corporations to maintain their dividends at regular rates during periods of depression.

Directors. — The affairs of a corporation are managed by a board of directors. In a few states, the directors for the first year are named in the certificate of incorporation. In other states they are elected by the stockholders at their first meeting. The number of directors of a corporation is either specified in the charter application or is fixed by the by-laws. The minimum number allowed by law is usually three.

In the larger corporations, where the board of directors is generally composed of a considerable number of members, the powers of the board are given, during the interim between board meetings, to an executive committee, which must be composed of members of the board, and that committee becomes the real managing body of the corporation. In addition to an executive committee, a finance committee is often appointed to supervise the financial affairs of the company.

Officers. — The officers of a corporation are usually president, secretary, and treasurer, who are elected by the board of directors. There may be one or more vice-presidents, and other similar officers, and sometimes two offices may be held by one person.

The President. — In most corporations the president is the chief executive officer. In the very large corporations, some of the duties usually performed by the president are assumed by the chairman of the board of directors. Generally the president presides over the meetings of the board of directors, and, if authorized to do so by the by-laws, also over the meetings of the stockholders. He can bind the corporation in most routine matters, and usually affixes the corporate signature to instruments requiring such signature. Other matters of unusual importance or outside of the regular routine must be specially authorized by the board to bind the corporation.

The president is usually required to exercise a general supervision over all the corporate business, and when necessary or required, make reports to the board of directors and to the stockholders of the condition of the affairs of the corporation. He is generally required, with the secretary or treasurer of industrial corporations, and with the secretary or treasurer of financial corporations, to sign the certificates of stock. The president must be a member of the board of directors, and as a director, he must be a stockholder in the corporation.

The Secretary. — The duties of the secretary of a corporation are, among other things, to keep a record of the proceedings of the stockholders and directors, and such other records as do not pertain to the work of the treasurer. The secretary is usually custodian of the corporate seal. He need not be either a member of the board of directors or a stockholder in the corporation, although he is sometimes both of these. He is usually required to take an oath of office, binding himself to the faithful performance of his duties.

The Treasurer is the financial officer of the corporation. His duties vary in different concerns. In the smaller corporations, besides having custody of the funds and securities of the company, he has direct supervision of the accounts, and keeps the general or business books. In the larger corporations, the accounting is under the direction of a controller or an auditor, and the purely financial operations are in charge of the treasurer and his assistants. The treasurer is responsible to the board of directors, or to the finance committee when

STOCK CERTIFICATE BOOK

Certificate
No. 427
For forty Shares
Issued to
Geo. H. Helvy
Dated June 10, 19
From whom transferred
Dated
No. Original Certificate
No. Original Shares.
No. of Shares Transferred.
Received Certificate No. 427
for forty Shares
this 10 day of June 19
Geo. H. Helvy
INCORPORATED UNDER THE LAWS OF THE
STATE OF PENNSYLVANIA.
The Central National Bank
OF PITTSBURGH
THIS CERTIFIES THAT Geo. H. Helvy is the owner of
Forty Shares of the Capital Stock of
The Central National Bank of Pittsburgh,
transferable only on the Books of the Bank in person
or by Attorney on surrender of this Certificate.
In Witness Whereof, the duly authorized officers of this Bank have hereunto
subscribed their names and caused the corporate Seal to be hereto affixed at Pittsburgh, Pa.
this tenth day of June A.D. 19
SEAL
CASHIER
PRESIDENT

such a committee exists. He need not be either a stockholder or a member of the board of directors, although he may be either or both of these. He is usually required to give a bond; and in some states must give a bond in such amounts as the by-laws shall fix and determine.

Books of a Corporation. — There is no system of bookkeeping peculiar to a corporation. The business transactions of a corporation do not differ in form from those of a partnership or of an individual proprietor. The volume of business is usually greater than that done by an individual, but this affects only the number, and not the kind nor necessarily the form of the books used. Each corporation, excepting where the form of its accounts is regulated by law, keeps its books, like all other concerns, in accordance with its own methods and the general principles of accounts. A few of the accounts of a corporation will differ from those of a private concern, and the form of its statements may also be different, but otherwise the general records are practically the same in both cases.

Corporate Books. — The only books which are peculiar to a corporation are those which show the operations connected with the corporate form of the concern, and contain a record of the corporate proceedings, and of the issuance and transfer of its stock.

The special books of a corporation are the minute book, subscription book, stock certificate book, stock ledger, stock transfer book, and dividend book.

Minute Book. — This book contains a record of the proceedings of the stockholders and of the board of directors. Sometimes separate minute books are kept for the proceedings of the stockholders and the board of directors. All entries in the minute book should be made by the secretary, and the book retained in his custody. The usual form of a minute book is that of an ordinary " record " book, the pages of which are ruled like a sheet of legal cap paper.

Subscription Book. — This book contains a list of the subscribers to the stock, with the number and par value of the shares subscribed for by each. If stock is paid for in installments, a separate space for each installment should be provided in the subscription book, or a separate installment book may be used.

Stock Certificate Book. — This is a book of blank certificates and stubs, and these certificates are issued to the stockholders as soon as their subscriptions are fully paid. (See form, page 257.) The stubs are filled out before the certificates are detached, and from them is made up the credit side of the stock ledger, in which each stockholder receives credit for the number of shares held by him.

On the back of each certificate is a blank bill of sale or form of assignment, by which a stockholder may transfer his stock to any other person.

When a certificate is surrendered, it is stamped "canceled," and pasted on to its own stub in the stock certificate book.

Transfer Book. — This is a book of printed forms and blanks to be filled in whenever a stockholder sells his stock, or any part of it, to another person. A stock certificate, when signed by the seller or his attorney, authorizes the transfer of a certain number of shares of stock from the account of the seller to the account of some other person named in the certificate. The transfer book serves as a journal to the stock ledger, and from it are made all entries after the original stock issue of the business has been entered in the stock ledger.

STOCK TRANSFER BOOK

Numbers of Certificates Cancelled.	Shares Cancelled.	Ledger Folio.	TRANSFERRED BY
34	200	27	Chas. H. Sewell
Numbers of New Certificates Issued	**New Shares Issued.**		**TO**
73	200	42	A. C. Miner

For Value Received, I do hereby assign and transfer to A. C. Miner

Two Hundred Shares of the Capital Stock of

The Central National Bank of Pittsburgh, Pa.

Witness my hand and seal, this 4 day of June, 1 9

Sealed and delivered in the presence of

D. C. Turner

Chas. H. Sewell [L.S.]

[L.S.]

Stock Ledger. — This book is auxiliary to the general ledger, and its credit balance should always agree with the Capital Stock balance in the general ledger. The stock ledger contains the name of every person holding stock, either by original issue or by transfer. It is made up originally from the stubs of the stock certificate book, and as the stock is issued, each holder is credited in the stock ledger with the par value of the stock. After the opening entries, all entries in the stock ledger should be made from the stub of the transfer book. These entries always consist of a debit to a seller of stock whose name is already in the stock ledger, and a credit of an equal amount to the buyer, whose name must be entered in the stock ledger.

Dividend Book. — The dividend book contains the names of all persons who have open accounts in the stock ledger, and opposite the name of each person is recorded the amount due him when a dividend is declared. This book may contain a space for the signature of

each stockholder acknowledging the receipt of his dividend, but in the larger corporations these dividends are generally paid by voucher checks which are in themselves receipts.

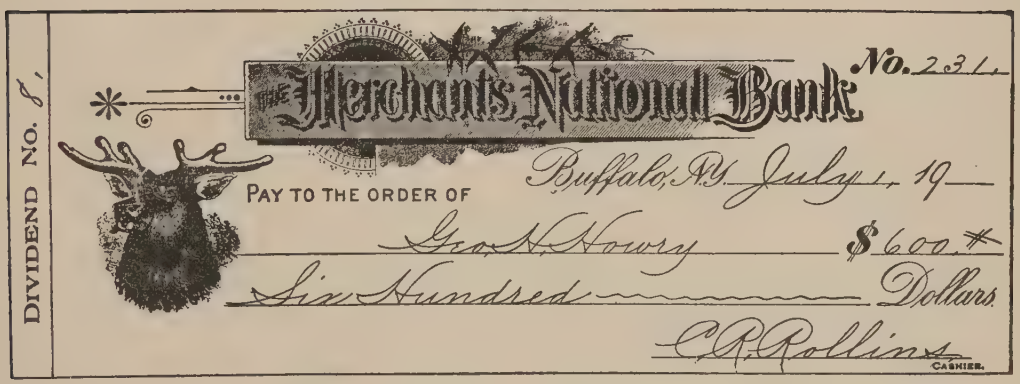
The following forms illustrate the dividend book and the dividend check.

DIVIDEND BOOK

8th Semi-Annual Dividend. July 1, 19 6%.

NAME OF STOCKHOLDER.	ADDRESS.	No. OF SHARES.	AMOUNT OF DIVIDEND.	WE HEREBY ACKNOWLEDGE RECEIPT OF ACCOMPANYING DIVIDEND.
Geo. H. Howry	Buffalo, N. Y.	100	600	Geo. H. Howry
C. M. Hunt	" "	150	900	C. M. Hunt.
A. L. McMillan	New York,	400	2400	A. L. McMillan,
Thos. J. Arthur	Troy, N. Y.	200	1200	Thos. J. Arthur
L. C. Collins	Albany, N. Y.	100	600	L. C. Collins
W. H. Johnson	" "	200	1200	W. H. Johnson,

DIVIDEND CHECK



Transfer Agents. — Among the larger corporations it is customary to appoint transfer agents who attend to the issue and the transfer of stock, and who should have charge of the stock certificate book, the stock ledger, and the transfer book, which relieves the secretary of a great deal of labor and responsibility.

Special Corporate Accounts. — A few accounts are peculiar to corporations, such as Capital Stock account, Treasury Stock account, Subscription account, Donation account, Surplus account, Dividend account, etc., and these take the place of capital and reserve accounts in proprietary or partnership businesses.

Good Will. — The business activity of private concerns is dependent upon the voluntary patronage of the public, and to the extent that this patronage is secured, it affects the growth or stability, or both, of the business of that concern. When a business has secured a patronage which is likely to continue, even though the ownership or location of the business, or both, should change, it constitutes a valuable asset to that business. This is called "good will." In the sale and taking over of a going business, the value of its good will is always a matter of agreement between the parties concerned, and is carried as an asset on the books of the new concern at cost, until some adjustment of it has been made. Some concerns charge off at intervals a portion of the cost of good will, until the whole amount has been absorbed through the profits, while others carry it as a permanent asset. The former is regarded the better practice, especially for corporations.

PROPOSITIONS

The following propositions are given for the purpose of illustrating the opening and closing of corporation books, and the entries to be made when dividends are declared.

1. James Brown, William Harper, Charles Edwards, Maurice Chaney, and William Upton have formed the American Motor-Truck Company with a capital stock of $100000, of which Brown, Harper, and Edwards have subscribed $30000 each, and Chaney and Upton, $5000 each. The minute book will show the proceedings of such meetings as have been held, and as soon as all the stock is subscribed for, the following journal entry should be framed:

Subscription		$100000	
	Capital Stock,		$100000

This entry should be posted to the general ledger.

Suppose the stock subscriptions are to be paid in two installments, one due January 1, and the other February 1. When the first of these installments is paid, the cash book of the corporation should contain a debit entry of $50000, and Subscription should be credited for this amount. When this entry has been posted to the general ledger, it will cancel half the Subscription account. When the second installment is paid, a similar entry should be framed in the cash book; and when this entry has been posted, it will balance the Subscription account.

The stock will now be issued, and from the stub of the stock certificate book each of the subscribers should be credited in the stock ledger with the amount of the stock issued to him.

2. A corporation is formed to acquire the patent rights of an envelope sealing machine invented by William Waugh, and to manufacture and sell the same. The authorized capital stock is $50000, and the par value of the shares is $10 per share. Waugh is to receive 2500 shares of the stock in exchange for his rights in the patent. A subscribes for 1000 shares, B, 1000 shares, and C, 500 shares, which subscriptions are to be paid in cash. The opening entry in the journal of the corporation would be:

Subscription,		$25000	
Patent Rights,		$25000	
	Capital Stock,		$50000

When the subscriptions are paid, an entry would be made in the cash book, crediting Subscription, $25000, which, when posted, would balance the Subscription account.

Suppose later Waugh should donate 1000 shares of the stock to the company, which, it is estimated, can be sold for $6000, to provide additional working capital when needed, and this stock is placed in the treasury. There are two ways of treating a transaction of this kind. The first is to frame a journal entry:

Treasury Stock,		$6000	
	Donation,		$6000

When this stock is sold, Treasury Stock is credited for $6000 in the cash book, and a journal entry is framed debiting Donation account and crediting Surplus account for the amount received from the sale of the treasury stock.

A second and better way is to credit the account for which the stock was first issued, which in this case is Patent Rights, and the entry would be:

Treasury Stock,		$6000	
	Patent Rights,		$6000

This would reduce the cost of the patent rights to the company by the amount of the estimated value of the stock donated.

If the stock were sold for more or less than its estimated value, the actual amount received would be credited to Treasury Stock in the cash book, and a journal entry would be framed to adjust the difference. If sold for, say, $1000 more than its estimated value, the entry would be:

Treasury Stock,		$1000	
	Patent Rights,		$1000

If sold for less than its estimated value, the reverse entry would be framed for the amount of the difference.

3. The firm of Warren & Carson have been engaged in the manufacture of furniture, and they transfer their business to the Warren & Carson Manufacturing Company, with a capital stock of $100000, par value of the shares, $100; the stock to be divided as follows: W. A. Warren to receive 500 shares, and E. B. Carson 250 shares. C. M. Harris has subscribed for 50 shares; D. J. Jones, 50 shares; D. E. Leavitt, 50 shares; and 100 shares are unissued, to be issued and disposed of for the benefit of the business when so voted by the directors. The assets and liabilities of the firm of Warren & Carson are as follows: *Assets.* — Cash, $7500; Notes Receivable, $22690.50; Accounts Receivable, $41987.50; Merchandise, $49800; Unfinished Goods, $24200; Raw Materials, $38700; Real Estate, $20000; Total Assets, $204878. *Liabilities.* — Notes Payable, $46965.50; Accounts Payable, $72912.50; Mortgages Payable, $15000; Total Liabilities, $134878. Warren's net worth, $46064.75; Carson's net worth, $23935.25.

If it is desired to open a new set of books, as is generally the case when a new corporation is formed, it is customary first to close the old books, which should be done by framing a journal entry, debiting the Warren & Carson Furniture Company for the total amount of the assets, and crediting each asset account for its respective amount. Posting this entry will balance the asset account. Then a journal entry should be framed, debiting the liability accounts for their respective amounts, and the separate accounts of the partners for their respective amounts, and crediting the Warren & Carson Furniture Company for the total. Posting this entry will close all liability accounts, the partners' accounts, and also balance the Warren & Carson Furniture Company account, and close the books of the old business.

One journal entry could be framed instead of two, crediting the assets and debiting the

liabilities and the partners. This would avoid the necessity of constructing an account on the old books with the Warren & Carson Furniture Company.

To open the corporation books, the amount of the subscribed capital stock, $90000, must appear on the credit side of the general ledger, the amount of the assets of the old business must appear as debit balances, and the liabilities as credit balances. The names of Warren and Carson must not appear in the general ledger of the corporation, as their worth at closing has been absorbed by the capital stock. A journal entry should be framed for the above as follows:

Cash,		$ 7500.	
Notes Receivable,		22690.50	
Accounts Receivable,		41987.50	
Merchandise,		49800.	
Unfinished Goods,		24200.	
Raw Materials,		38700.	
Real Estate,		20000.	
Good Will,		5000.	
Subscription,		15000.	
	Notes Payable,		$46965.50
	Accounts Payable,		72912.50
	Mortgages Payable,		15000.
	Capital Stock,		90000.

Referring to the statement of assets and liabilities of Warren & Carson, it will be seen that the actual difference between the assets and liabilities of that firm is $70000. For this amount, E. A. Warren has received $50000 of the capital stock in the new corporation, and E. B. Carson, $25000, a total of $75000, or $5000 more than the actual difference between the assets and liabilities of the firm. This difference represents the agreed value of the good will of the old business, and thus Good Will should be debited for $5000, since it costs the new business that much, and is regarded an asset. The remaining $15000 of the $90000 capital stock issued is balanced by the debit of Subscription, $15000. When this journal entry has been posted to the general ledger of the new books, the books of the corporation are correctly opened. Warren should receive stock certificates of the par value of $50000, and Carson stock certificates of the par value of $25000.

When the subscriptions of the new stockholders, Harris, Jones, and Leavitt, are paid, an entry in the cash book crediting Subscription for $15000 would be made, and stock issued to Harris, Jones, and Leavitt, to the par value of $5000 each, making a total of $90000, which is the amount of the stock subscribed and issued, and also the amount of the paid-up capital of the company. The stock issued would appear on the credit side of the stock ledger under the accounts of the respective stockholders. The cash item in the journal would be checked, since the amount appears in the cash book.

In the proposition just advanced and explained, let us suppose that the corporation does not care to go to the expense of purchasing new books, but desires to make such entries as will continue the books of the partnership as corporation books. Examining the above journal entry, it will be seen that the accounts showing the assets and liabilities of the old business are not changed after they have been closed in the books of the parnership and transferred to the books of the corporation. Therefore no entries for these accounts are necessary, as they will have the same balances in either form of business.

To change the books from the partnership form to the corporate form, the following journal entry is framed:

W. A. Warren,	$46064.75	
E. B. Carson,	23935.25	
Good Will,	5000.	
Subscription,	15000.	
Capital Stock		$90000.

When this entry has been posted to the general ledger, the books of the old business are correctly opened as corporation books.

The stock ledger, of course, will be opened exactly as in the first proposition, since the conditions are not changed. The capital stock is made up of the surplus of assets over liabilities (which is shown by the net worth of W. A. Warren and E. B. Carson); of good will, $5000; of subscription, $15000. The above journal entry when posted will balance the personal accounts of Warren and Carson, and also show the amount of subscription due and the value of the good will, while Warren and Carson will receive credit on the stock ledger for $75000 worth of capital stock, leaving the remaining $15000 to be credited to the proper persons when the subscriptions are paid.

4. The balance sheet of the Waugh Envelope Sealing Machine Company, capital stock $50000, for the year ended December 31, 19—, showed net earnings for the current period of $18375.84, which amount was carried to Surplus account. The directors on January 10 declared a semiannual dividend of 3% on the capital stock, the stock books to close January 15 and reopen February 1. The entry for the declared dividend would be:

Surplus,	$1500	
Dividend,		$1500

When the dividend is paid, the Dividend account would be debited in the cash book, which would balance the Dividend account for the period.

5. The balance sheet of the Harper Shoe Company for December 31, 19—, shows that the liabilities exceed the assets by $13250. At a meeting of the stockholders, it was decided, in view of the prospects of the company, to meet the deficiency by a voluntary assessment. When the books are closed as of December 31, 19—, an Impairment account should be constructed to represent the deficit. The entry which would be framed to close the Profit and Loss account would be:

Impairment,	$13250	
Profit and Loss,		$13250

When the assessment is levied, each stockholder should be charged with his proportionate share in the stock ledger, and a journal entry should be framed, debiting Assessment and crediting Impairment for the amount of the assessment. When this entry has been posted, the Impairment account will balance, and when the assessment has all been paid, and the proper entry framed and posted, Assessment account will balance.

EXERCISES

The entries for the following exercises, with proper explanations, are to be framed on loose paper. No posting is required.

1. A, B, and C have organized a corporation for the purpose of building and operating an electric light plant, and of selling current to the public. The authorized capital stock is $2000000, par value of the shares $100. A subscribed for 500 shares, B, 300 shares, and C

200 shares. Other subscriptions aggregated 7000 shares. The subscriptions were all paid in cash, and later 1000 additional shares were subscribed for and paid in cash.

Frame proper entries for the above transactions, and state the amount of stock remaining unissued.

2. To raise working capital, the stockholders of the Oro Mining Company donated 10000 shares of the stock of the company to the treasury. The par value of the stock is $5, and it was estimated that it would sell for an average of $2.50 per share. The treasurer reported that he had sold 1000 shares at $3, 2500 at $2.75, 5000 at $2.50, 1000 at $2.25, and 500 at $2.

Frame proper entries for the above transactions, using the first method explained in proposition 2, page 260.

3. A corporation is formed with an authorized capital of $200000, par value of the shares $100, to take over a manufacturing business conducted by A and B as a partnership. The assets are to be taken at their book values, and the partners are to guarantee the full payment of all outstanding notes receivable and accounts receivable. Each partner is to receive $75000 in stock for his interest in the old business, and $50000 of stock is to be offered for subscription at par, to provide additional working capital.

The balance sheet of the old business shows the following assets and liabilities: *Assets.* — Cash, $10375.25; Accounts Receivable, $34216.81; Notes Receivable, $18642.34; Finished Products, $24211.96; Goods in Process, $13687.25; Materials, $15134.52; Machinery and Equipment, $35917; Furniture and Fixtures, $1252; Office Supplies, $875.50; Shipping Supplies, $217.75; Insurance on Goods, $112. 25. *Liabilities.* — Notes Payable, $15875.25; Accounts Payable, $13767.38. A's capital, $62500; B's capital, $62500.

Assuming that a new set of books is to be opened, and that C has subscribed for 200 shares, and D 300 shares, frame the journal entry that should be made on the corporation books when the old business is taken over. Frame the entry that should be made when the subscriptions are paid, and state in what other books records would be made for the transactions.

4. The balance sheet of the Consolidated Electric Manufacturers Company for Dec. 31, 19—, showed the following assets and liabilities, exclusive of surplus or deficit; *Assets.* — Cost of properties, including trade marks, patent rights, real estate, building and machinery, $16359861.95; Investments in affiliated companies, $575,000; Deferred charges to operations: insurance, interest and other periodical expenses, $143146.89. *Current assets.* — Inventories of raw material, manufactured products, and supplies on hand, $4077973.79; Accounts Receivable, $1892705.86, less reserve for discounts, $50000. Notes Receivable $128680.01; Cash on hand and in banks, $572680.22. *Current liabilities.* — Notes Payable, $2661563; Loans, $372176.64; Accounts Payable, $158544.33. Capital stock authorized and issued — Preferred shares, $100 each, $5000000; Common shares, $100 each, $15000000.

From the above data prepare a balance sheet, including surplus or deficit, and arrange the assets and liabilities in the order of fixed and floating, with the quickest or most liquid asset last.

If the balance sheet shows a surplus, assume that a dividend of $1\frac{3}{4}\%$ was declared on the preferred stock for the period by the directors, and frame the entry that should be made for such declaration.

5. Assume that the balance sheet of the above corporation showed a deficit for the period ended June 30, 19—, of $75162.19, and that there was no previous surplus, and that no assessment had been levied. State first, what the net earnings for the current period, available for dividends, must have been in order to wipe out the deficit and show the surplus as disclosed by the balance sheet. Second, frame the entry that would be made as of December 31, 19—, which would balance the account that represented the deficit, and create an account that would represent the surplus shown by the balance sheet.

QUESTIONS

1 What is a corporation?

2 Of what is a corporation composed, and how does it differ from a partnership?

3 How many general classes of corporations are there? State what they are, and describe each class.

4 What advantages and disadvantages do individual and partnership forms of business organization possess over the corporate form?

5 Define a trust; a holding company.

6 What is meant by government supervision, and how is it exercised?

7 How are corporations created?

8 How are corporations formed? Explain in detail how a corporation may be formed in your state.

9 Explain the difference between a "domestic corporation" and a "foreign corporation."

10 How is the capital stock of a corporation represented? Explain the different phases of this representation. What is treasury stock? How is it treated on the books?

11 What is a bond, as the term applies to corporation securities? Describe the different kinds of bonds, and state how bonds differ from stocks.

12 How are the profits and losses of corporations found? How are the net profits distributed?

13 What is meant by "surplus"? What purpose does it frequently serve?

14 By whom are corporations managed? Explain how their authority is obtained.

15 What are the usual officers of a corporation? The additional officers?

16 What are the duties of the secretary? How is he sometimes relieved of a part of his duties?

17 What relation does the treasurer sustain to the corporation? Explain his duties (1) in small corporations, and (2) in large corporations.

18 Is there a system of bookkeeping peculiar to corporations? Give a reason for your answer.

19 What books are peculiar to corporations, and for what purposes are they used?

20 What accounts are peculiar to corporations, and what accounts do they take the place of in proprietary and partnership businesses?

21 What is meant by "good will," and how is its value determined? How is it treated on the books? How may it be disposed of on the books?

22 When a going business is transferred to a corporation, what are the names of some of the new accounts which will be constructed?

23 Explain the steps to be taken, and the entries to be made, when a going business is transferred to a corporation, and a new set of books is opened.

24 What entries, when the old books are continued?

25 What entries would be made when stock is donated to the company and afterwards sold for cash? Explain both methods.

MANUFACTURING

Manufacturing is the converting of materials into finished products. All materials in their natural or raw state are the products of nature, and when used for manufacturing purposes are called " raw materials." Converted materials are called " manufactured products," or " finished goods." Products which are called finished goods in some industries are classed as raw materials in others.

Production. — Production is of two kinds, natural and industrial. Originally, industrial production, or manufacturing, was done almost entirely by handicraft, but now machinery has largely supplanted hand work in many of the operations. The substitution of mechanical for human forces in manufacturing results generally in saving of labor, increase of output, reduction in cost, and improvement in products.

Disposition of Products. — Some manufacturers dispose of their products through jobbers, commission merchants, or manufacturers' agents, while others maintain regular sales departments, through which their products are distributed to the wholesale trade. Concerns of the latter kind are both manufacturers and wholesalers. Still other manufacturers dispose of their products direct to the consumers, through the medium of retail stores, established and conducted as a part of their business. This class of concerns are both manufacturers and retailers.

The Factory System. — In the early stages of industrial production, manufacturing was carried on by the individual, working independently, or by the family working as a unit. Since the invention of machinery, and especially of the steam engine, which enlarged the field of machine operation, the old systems have been practically superseded by the " factory system," which combines the forces of labor, machinery, and administration into definite and effective units. The factory system is a universal method of industrial production, which can be applied to practically all kinds of manufacturing.

Factory Organization. — The purpose of organization is to increase the effectiveness of action. It enables a number of persons to operate more effectively as a concrete unit than they could as independent units. It permits of division of labor, which, in industrial operations, results in increase of skill and of productivity. Division of labor also results in specializing, or the concentration of thought and effort on a particular thing, thereby greatly increasing the efficiency of the operator.

The modern factory is a model of industrial organization. It is thoroughly organized as to its various departments, and every department is so operated as to contribute its due share to the purpose of the factory, and to the success of the business. Consequently the results are greater efficiency, increased output, and lower costs.

Factory Efficiency. — Efficiency, as applied to manufacturing, is based on a comparison between the quantity and quality of output, and the time, labor, and money expended upon it; or results compared with costs. Efficiency is obtained by saving in labor, the result of

the use of machinery; by saving in time, the result of the division of labor; by proper organization and supervision; and by other improved factory methods.

The efficiency of the human agencies, or workmen, is dependent generally upon their intelligence, ability, and skill, and that of the mechanical agencies is dependent generally upon their usefulness, construction, power applied, upkeep, and the proper service of the operatives. Efficiency is also dependent upon factory conditions, as light, air, space, etc.

Manufacturing Activities. — The activities of a manufacturer comprise: the purchase and use of materials, machinery, and supplies; the application of, and payment for, light, heat, and power; of labor, and the supervision of the same; and the distribution of the finished products. For these activities, and the expenditures connected with them, careful and systematic records are kept. A record of the quantities of materials purchased and used, received and delivered, is called " stock keeping," and a record of the costs for producing the finished products is called " cost keeping."

Manufacturing Records. — The records of a manufacturing business relate both to the production of the commodities and their distribution, and therefore are more comprehensive than are the records of any of the other kinds of business heretofore treated in this book. Some manufacturing concerns that are also wholesaling concerns keep one set of books, or records, for their manufacturing activities, and another set for their distributing or selling and general activities, while others combine the records of all classes of activities in one set. When two sets of records are kept, the manufacturing records are usually subsidiary to the other records, or regular business books.

Manufacturing Accounts. — The distinctive account in a manufacturing business is the Manufacturing account, which shows on its debit side the cost of materials, the productive labor cost, and the manufacturing expenses, and on its credit side the productive cost or the market price of the finished products. This account is represented by its subsidiary accounts, Materials, Labor, and Manufacturing Expenses, or the subdivisions of the latter account, as Indirect Labor account, Rent account, etc.

Other accounts peculiar to a manufacturing business are Machinery and Tools, Repairs and Renewals, Patterns, Patent Rights, Pay Roll, Finished Products, Depreciation, and such other accounts, real or nominal, as the nature of the business may require.

Classifying Expenses. — The expenses of a manufacturing business may be classified under three heads, manufacturing expenses, selling expenses, and general and administrative expenses; and by constructing accounts to represent these three classes of expenses much time, as well as much space in the general ledger, can be saved. The trial balance and the profit and loss statement are simplified by this classification, and can be more easily and quickly made than when numerous nominal accounts are kept.

Analysis Book. — When the expenses are classified, as explained above, an analysis book is kept. This book contains a summary by months, of the expenses, classified in detail, and is compiled from analysis sheets, which are made up from the original records. In this way any desired information regarding the expenses of the business can be readily obtained.

Purchases. — When materials are required in a manufacturing business, this is indicated by the receipt of a " purchase requisition " from the superintendent of the factory, or of a " stock report " from the stock keeper. An order called a " purchase order " is then sent to the producer of, or dealer in, the materials wanted, and a copy of the order is sent to the accounting department to be filed until the invoice of goods is received, when it is compared

with the invoice after it has been O. K.'d by the bookkeeper from the stock clerk's report of goods received. The invoice is then recorded, and both purchase order and invoice are filed either separately or together. A copy of the purchase order is also usually sent to the stock department for a record of "stock ordered." (See forms of purchase order and duplicate below.)

PURCHASE ORDER BLANK

B 81056 | This Letter and Number must appear on your invoice

ORDER Centre and Bickford Sts., *Boston,* *1911*

TERMS:

To M .....

Send us

	QUANTITY		PRICE		PAY NO ATTENTION TO THESE COLUMNS CLASS	DEL'Y
(1)						
(2)						
(3)						
(4)						
(5)						
(6)						
(7)						REQ.

MAIL INVOICE SAME DAY GOODS ARE SHIPPED.

(over)

THOMAS G. PLANT COMPANY.

BY ..... PURCHASING AGENT.

Form 285-5M-1-11

If there are any inquiries about the above call for Mr. ..... PER .....

DUPLICATE PURCHASE ORDER BLANK

Date *1911*

TERMS:

No. 81056

Name .....

Ship

INVOICES RECEIVED DATES

		PRICE	DEPT. CLASSIF'N	DELIVER TO	
					1
					2
					3
					4
					5
					6
			DATE OF REQUISITION		7

(DUPLICATE OF ORDER.)
Form 285

Ack'd	
Accepted	
Will ship	

Hurried	
For Bill	
Delivered	

Record of Invoices. — In a merchandising business, invoices are charged to Purchases account, or to the department for which the goods were bought. In a manufacturing business, invoices are dissected and the items distributed to various accounts representing the purchases for which the transactions were made, as materials, machinery, tools, supplies, etc. In like manner, the bills for the expenditures are dissected, and the items distributed

to their respective accounts. To make this system of records complete, and have it cover all the items of purchase and expense, it is necessary to have a voucher for every purchase and expenditure, and to make a systematic and comprehensive record of the same. These requirements are provided for by the voucher system of accounting.

The Voucher System. — During recent years, there has been a great advance in the systematizing of accounts, and in the proper distribution of the various items of expenditure; and this is shown in its highest stage of development in the voucher system. This system requires a voucher for every transaction or for every entry on the principal books, and the use of a " voucher jacket " and a " voucher register."

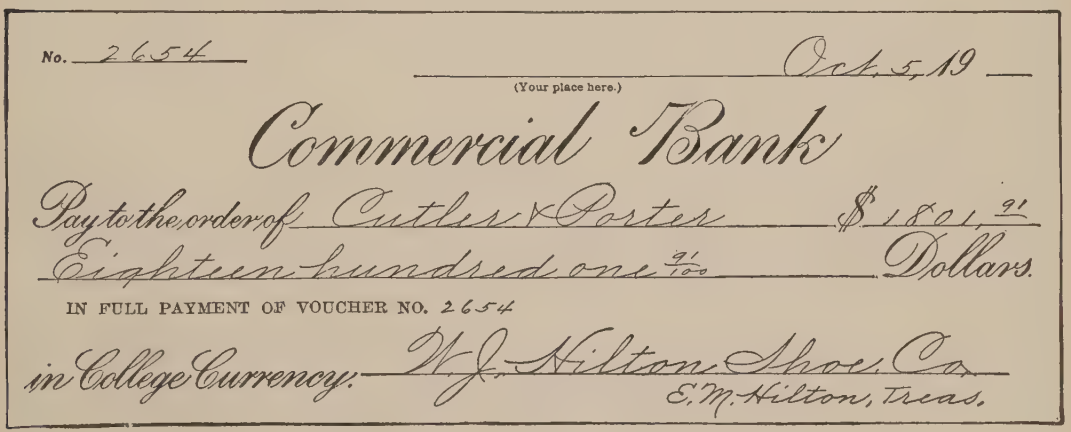
The Voucher Jacket. — A voucher jacket, as its name indicates, is a jacket or cover for the voucher, which may be either an invoice or an expense bill. The face of the jacket is in the form of an invoice blank, with the form of a receipt blank below. It provides for the number of the jacket, name of the creditor, date, particulars, and amount of invoice, signatures of bookkeeper and manager, and for the acknowledgment of payment. Several vouchers from the same creditor or several expense bills may be included in one jacket. (See form, page 270.) The back contains a form for a brief record of the voucher, and the proper distribution of the same, which includes the number of the voucher, name of creditor, amount of voucher, when paid, check number, and accounts to be charged.

After the proper records have been made, both on the voucher jacket and in the books, the voucher is attached to the jacket, which is then folded with the back out, record side up, and filed under " Unpaid Jackets." When payment of the voucher is made, the proper record is made in the voucher record and on the back of the jacket, which is then sent with the remittance, to be receipted and returned. When the jacket is returned, it is again filed, with the original voucher securely attached to it, under " Paid Jackets."

In some voucher systems the voucher jacket is not sent out with the remittance, and hence does not contain the receipt blank.

Many business houses pay all invoices received from the first to the tenth of the month on the tenth, those received from the tenth to the twentieth on the twentieth, and those received from the twentieth to the end of the month on the first of the following month, and regard these as cash payments; and their creditors, having been notified of this method of payment, generally do not object to receiving such payments and allowing cash discounts.

VOUCHER CHECK


No. 2654
Oct. 5, 19
(Your place here.)
Commercial Bank
Pay to the order of Cutler & Porter $1801.21
Eighteen hundred one 21/100 Dollars.
IN FULL PAYMENT OF VOUCHER NO. 2654
in College Currency. W. J. Hilton Shoe Co.
E. M. Hilton, Treas.

VOUCHER JACKET

No. 2678

ST. LOUIS, MO., Dec. 1, 1919.

Gould & Lincoln
Chicago, Ill.

In account with THE DARLINGTON SHOE CO.

Nov.	1	Invoice		net			275	85
	20	"		2/10	345	85		
	30	"		2/10	400			
					745	85		
				2%	14	92	730	93
							1006	78

CORRECT: A. C. Minus — BOOKKEEPER.

APPROVED: George Lacy — MANAGER.

$1006 78/100 — Chicago, Ill., 19 19

Received of THE DARLINGTON SHOE CO.

Ten hundred six and 78/100 ---------- DOLLARS

IN FULL FOR ABOVE ACCOUNT ----------

(Please receipt and return promptly.)

BACK OF VOUCHER JACKET

Recorded in the month of Nov. 19 19

No. 2678 Amount $1021 70/100

Receipt of
Gould & Lincoln

Paid Dec. 1, 19 19

Check No. 242

DISTRIBUTION		
SUNDRIES: Tools	275 85	85
Machinery and Equip.	745	85
MATERIALS:		
FREIGHT INWARD:		
DIRECT LABOR:		
MANUFACTURING EXPENSES:		
FACTORY SUPPLIES:		
INDIRECT LABOR:		
SELLING EXPENSES:		
GEN. AND ADMIN. EXPENSES:		

Payments of vouchers are made by voucher checks, and if a jacket is not returned as requested, the check is a receipt for the payment of the voucher. (See form of voucher check, page 269.) When a voucher is paid, the usual entry is made in the cash book, with the exception that the number of the voucher should be written in the number column, the number of the check being written in the check number column. (See form, page 275.)

Voucher Register. — The voucher register contains a record of all vouchers, and is the distinctive book of the voucher system of accounts. By its use the purchases ledger may be dispensed with; the total amount of Vouchers Payable Credit column, as shown in the register, will show the total credits to be carried to Vouchers Payable account, while the total amount of Vouchers Payable Debit column in the cash book will show the debits to be carried to Vouchers Payable. Of course the amount of the unpaid items in the Vouchers Payable Credit column should show at any time the amount of vouchers unpaid, which will be the accounts payable of the business, and these can be readily proved by comparing with the unpaid vouchers on file. The voucher register is provided with special columns for the numbers and particulars of the vouchers, and for the distribution of the amounts. As many columns may be provided for distribution purposes as the nature of business, or the classification of the accounts, may require. Accounts for which no special columns are provided are entered under "Sundry Debits." The vouchers are numbered in consecutive order in the special number column. (See form, pages 272 and 273.)

As soon as an invoice or an expense bill has been O.K.'d, a voucher jacket is made out and certified by the proper persons, after which the distribution of the amount or items is made to the proper accounts on the back of the jacket, and from this the distribution is made in the voucher register.

Some accountants do not record the voucher jackets until the time arrives for the payment of the vouchers.

When the vouchers for the month have been recorded, the Vouchers Payable Credit column and the special distribution columns are footed, and the columns ruled off. The total of the footing of the Sundry Debits and distribution columns should agree with the footing of the Vouchers Payable Credit column. The footing of the Vouchers Payable Credit column is posted to the credit of Vouchers Payable in the general ledger. The items in the Sundry Debits column and the footings of the various distribution columns, excepting the General column, are posted to their respective accounts in the general ledger. The items under Manufacturing, Selling, and Gen. Adm. Expenses are posted to the various accounts in the expense ledger. A check mark with the folio of the account written over it should be placed opposite the footing of each posted column to indicate that the amount has been posted.

Cash Book. — The form of cash book used in a manufacturing business is essentially the same as that used in a wholesale business. It usually contains special columns which adapt it to the requirements of the business. The form of cash book shown on pages 274 and 275 is well adapted to any manufacturing business where the voucher system is used. It provides for a record of the actual receipts and disbursements, and can be easily and quickly audited.

Imprest Fund. — Every well-conducted office gives a great deal of attention to the proper safeguarding of cash. The usual practice is to deposit daily all cash received in whatever form, thus making the daily deposit exactly equal the daily receipt. When this is done, all disbursements must be by check, except those which, for the sake of necessity and convenience, must

VOUCHER

DISTRIBUTION OF VOUCHER JACKETS

Voucher No.	Date	In Favor of	Explanations	Vouchers Payable Credit	Sundry Debits			
					Folio	Account	General	Accts. Rec.
	19—							
2819	1	R. T. Prince	G/A Sal. 70	2152 65				
2820	3	I. B. Stone	Inv. 12/1 (off. sup.)	25 15				
2821	5	A. H. Henry	Nov. S. 200. Exp. 139. 52	339 52				
2822	12	Brandt Mfg. Co.	Inv. 12/10	164 50		M'chy & Equip.	164 50	
2823	19	Union Leather Co.	" 12/14	562 19				
2824	21	Munn & Son	" 12/20	13 65				
2825	25	Cox Casting Co.	Bill 12/24 O. Frt. 18. 77	67 42				
2826	27	J. T. Lyman	" 12/26	118 75		Real Estate	118 75	
2827	31	Imprest Fund	Dec. disb.	89 36	✓	Accts. Rec.		2 50
2828	31	Dodd Leather Co.	Inv. 12/31	1362 75				
2829	31	United Shoe M'chy Co.	Royalties 12/31	307 61				
2830	31	A. H. Henry	Dec. S. 200. Exp. 152.60	352 60				
				13 5556 15			283 25	89 2 50

be made in currency. The currency needed for this purpose is provided in a separate fund called a Petty Cash Fund or an Imprest Fund.

To establish such a Fund a check is made out for an amount which it is estimated will be sufficient to meet the currency disbursements for a month, and the amount is charged to Imprest Fund through the cash book. Or, if it is desired to have a voucher for every check issued, the transaction is passed also through the Voucher Register, the voucher being entered as a debit to Petty Cash Fund or to Imprest Fund, while in the cash book the check is given a voucher number and entered also in the vouchers payable column.

The fund thus created stands on the general ledger without change unless it is desired to increase or decrease it. The cashier is made responsible for the original fund and must at any time be able to produce cash, or cash and petty cash vouchers or receipts, which will exactly equal the original fund.

Petty Cash Book. — This is a special auxiliary book which contains a record of all currency disbursements. As currency is paid out for any purpose, a receipt or voucher is procured and an entry made in this book. At the close of each month, or earlier if necessary, the Cashier summarizes all payments as shown by the Petty Cash Book and supported by the vouchers, and turns over the summary, together with the vouchers, to the bookkeeper or treasurer for reimbursement. A voucher is prepared for the total amount disbursed, and the proper general ledger accounts charged, through the Voucher Register, with the amounts disbursed affecting each account.

The corresponding credit would be to Vouchers Payable. A check is then drawn in payment of the voucher and entered in the cash book as a debit to Vouchers Payable. The check is cashed and the money turned over to the petty cashier, which restores the cash in the fund to its original amount. The petty cash book is balanced monthly.

Stock Keeping. — The keeping of an accurate record of materials is of special importance in a manufacturing business. It serves to show not only the quantities received and used, but also the quantities which should be on hand at any time. This not only prevents the necessity of taking frequent physical inventories, but also serves as a basis for ordering and keeping up stock, and for other purposes, including the checking or proving of the physical

REGISTER

MONTH OF December 19__.

PAID			PRIME COST			MANUFACTURING EXPENSES			SELLING EXPENSES			GEN. ADM. EXPENSES		
Date		Ck. No.	Materials	Inward Freight	Labor	Fol.	Account	Amount	Fol.	Account	Amount	Fol.	Account	Amount
Dec.	1	1307			1876 50		Ind. Labor	206 15					Office Sal.	70
	3	1318											Office Sup.	25 15
	5	1324								S. Salary	200			
										S. Expense	139 52			
	19	1332	562 19											
	21	1340					Facty. Sup.	13 65						
	25	1356		48 65						Frt. Out	18 77			
	31	Imp. Fd.					Misc. Exp.	46 18		Ship. Sup.	29 15		Mis. of Ex.	11 53
			1362 75				Royalties	307 61						
										S. Salary	200			
										S. Expense	152 60			
			[36] 1924 94	[37] 48 65	[38] 1876 50			573 59			740 04			106 68

inventories, thereby detecting waste or theft. Such a record is called a "perpetual inventory."

The nature of the goods manufactured will determine somewhat the kind and form of stock books, or of stock records, which should be kept in any particular manufacturing business. The stock ledger is the chief book in any stock-keeping system. It contains accounts by quantities with every kind of material used in the manufacture of the finished products. The debits of these accounts are made from the invoices after they have been checked by the receiving department, or from the receiving book or other receiving record, and the credits are made from the requisition slips after the requisitions have been filled by the stock department, or from the stock journal or other record.

The card ledger form of record is admirably adapted for use with any stock-keeping system. The illustration on this page shows a common form of stock-ledger card.

A record should be kept of factory supplies, both received and used, and of finished products. The records of these three classes of stock can be readily distinguished by the use of different colored cards.

FORM OF STOCK LEDGER CARD

Article				Location		Unit	Max. / Min.	
RECEIVED			DELIVERED					
Date	Ordered	Received	Date	Quantity	Balance	Date	Quantity	Balance	Date	Quantity	Balance

For storing material or stock so that it can be easily located, and conveniently obtained when wanted, bins are generally used. The bins are arranged in divisions according to departments, and each bin bears a label containing the number of the bin, and the name of the material or stock for which it is used.

Production Methods. — There are two general methods of production in manufacturing, called "the production order method" and "the process method." The production order

CASH

DATE		ACCOUNT	EXPLANATIONS	FOLIO	ACCOUNTS RECEIVABLE	CASH SALES	DISCOUNT ON SALES	NET RECEIPTS
19—								
Nov.	1	Balance	in Exchange Bank					13942 26
	2	G. H. Deane & Co.	inv. 10/20–2%		786 40		15 73	770 67
	3	Sales	L. B. Smith	√		132 60		132 60
	3	Elgin Trading Co.	inv. 10/25–2%		1268 70		25 37	1243 33
	4	Notes Receivable	Field & Co. disc. 60 ds.	×	1500		15	1485
	4	Sales	Sherwood & Co.	√		194 89		194 89
	5	Dodge & Pond	inv. 10/26–2%		942 80		18 85	923 95
	5	Empire Shoe Co.	on acct.		500			500
	6	Marsh & Cox Co.	inv. 11/1–net		1988 75			1988 75
	6	Notes Payable	our note 4 mo. disc.	×	4200		43 70	4156 30
		Sundries		√	5700			
		Accounts Rec.	Cr.		5486 65			
		Sales	Cr.			327 49		
		Discount on Sales	Dr.				59 95	
		Interest	Dr.				58 70	
		Cash	Dr.					11395 49
	√	Balance, Nov. 1						13942 26
								25337 75

method is used where the nature of the product is such that accurate records can be kept of each article or lot from the beginning of its manufacture until it becomes a finished product. This method is applicable to a very large list of commodities. The process method is used where it would be impossible or difficult to apply the production order method, as where the workmen's time on each lot cannot be definitely reported.

Cost Keeping. — As applied to manufacturing, cost keeping is a systematic record of every item of cost connected with the production of commodities. The principal objects of these records are: to determine the actual cost of each article or lot of articles manufactured, so as to be able to fix a selling price which will net a desired profit, or to show the profit when the selling price is fixed by competition or other causes; to ascertain the productivity and efficiency of the productive agencies; to serve as a guide in regulating output and expenditures; and to show where profits may be increased by increase in efficiency, or by reduction in expenditures.

There are numerous cost keeping, or cost finding, systems applicable to the various lines of business, or to different conditions in the same line. Most of these systems are the results of careful study, experiment, and experience. The best cost keeping system for any particular business is the one which will give the desired information with the least expenditure of time, effort, and money. Cost keeping may be applied to almost any kind of business, but it is especially valuable in a manufacturing business.

Elements of Cost. — The elements of cost are: *prime cost*, which is the combined cost of materials and direct labor; *factory cost*, which is direct factory expense added to the prime cost; *total cost*, which includes factory cost, general expense, and selling expense. The *selling price* combines all of the above elements, and the profit.

The accompanying diagram illustrates the method of building up costs to find a selling price which will net a desired profit, or to find the amount of the profit when the selling price

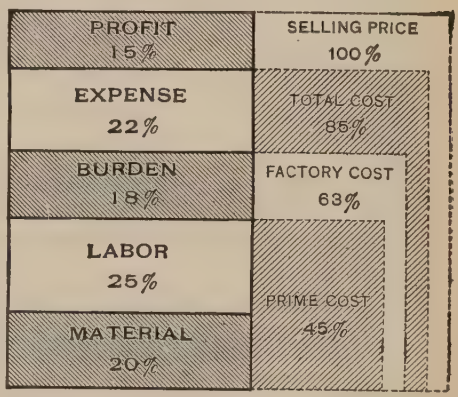
Book

Date		In Favor of	Explanations	Folio	Check No.	Voucher No.	Vouchers Payable	Disc. on Purchases	Net Disbursements
19—									
Nov.	1	Imprest Fund	R. T. Prince		388				100
	1	Union Leather Co.	inv. 10/2 net	√	389	2749	654 30		654 30
	1	C. B. Thomas Co.	Acct. sale and exp.	√	390	2750	576 40		576 40
	2	United Shoe M'chy Co.	inv. 10/2 net	√	391	2753	431 62		431 62
	3	Banning Findings Co.	inv. 10/12–2%	√	392	275	276 21	5 52	270 69
	5	R. B. Johnson & Co.	inv. 10/13–2%	√	393	2751	1200	60	1140
	5	Dodd Leather Co.	inv. 10/28–5%	√	394	2754	1896 75	94 84	1801 91
	5	R. T. Prince	Pay roll	√	395	2755	3600 50		3600 50
	5	Excelsior Thread Co.	inv. 10/3–	√	396	2756	64 48		64 48
		Vouchers Payable	Dr.				8700 26		
		Discount on Purchases	Cr.					160 36	
		Cash	Cr.						8639 90
		Balance	in Exchange Bank						16697 85
									25337 75

is fixed by competition or other causes. In the latter case the producer gets as profit the difference between the total cost of the article and the price at which he is obliged to sell it, while in the former case he gets the profit he desires to have.

The selling price represents the whole, or one hundred per cent, and each of the parts of which it is composed represents such a percentage of the whole as the cost of the part or the ratio of the profit, bears to one hundred per cent. If an article which is priced at $5.40 has in it material which cost $1.08, and the other costs were $1.35 for labor, 97.2 cents for burden, and $1.198 for expense, and the profit was 81 cents, the percentages would be 20, 25, 18, 22, and 15 respectively.

Diagram of Cost Finding



Production Order. — The manufacture of goods is authorized by a " production order," which is issued by the office to the factory, and which contains the order number, date of order, description of the articles to be made, the quantity, etc. There are numerous forms of production orders. Those generally used in connection with cost systems are designed to contain, in addition to the information mentioned above, data relating to quantity and cost of material, workmen's time, and cost of operations. Several copies of the production order are usually made, one of which is sent to the cost department.

Material Requisition. — The materials required for the articles called for in the production order are obtained by each of the different factory departments from the stock department by a " material requisition " made out by the foreman. This requisition contains the date, number of the order, name or number of the department, quantity and description of

materials required, signature of the foreman, or person who authorized the requisition. After the stock clerk has filled and recorded the requisition, it is sent to the cost department.

Labor Ticket. — The time spent by a workman upon an article or on any part of the work is recorded by him on a labor ticket, or time card, which he turns in to the foreman when he has finished his work. There are many forms of labor tickets, or time cards, and the form used in any business will depend upon the information required, and the conditions under which the goods are manufactured. A typical labor ticket, or time card, provides for a record of the workman's name, or number, date, article or part, time spent, or quantity made if piece work, rate, amount, and foreman's O. K. The purposes of the labor ticket are to determine the cost of productive labor and the efficiency of the workmen. After the labor tickets have been turned in and recorded, they are sent to the cost department.

Pay Roll. — A record of the total amount of time worked, or of the total number of pieces done by each workman, and the amount of money he has earned is kept in a "time book" or a "piece book." There are numerous forms of pay rolls, and various ways of recording the time of the workmen. In factories where the wages are paid by the day or the week, the time of the workmen is taken either by time keepers or by means of mechanical time recorders. The time keeper records daily in the time book, the time, both morning and afternoon, when each employee enters and leaves the factory. The mechanical time recorder registers automatically on a strip of paper or on a card the "in" and "out" time of each workman, which he has "rung up" by means of a key or lever punch.

The pay roll is made up from the time book, or from the time cards or time slips after they have been removed from the time recorder, and also from the piece book.

Division of Cost. — For cost keeping purposes, cost has been divided into three parts: cost of materials, cost of labor, and indirect expense; also called overhead charges and burden. The cost of materials is found through the material requisitions, and the cost of labor through the labor tickets. The cost extensions on these requisitions and tickets are made by the cost clerks, and a record is made of each article or lot on a "cost record" or on a "cost ledger." The cost record shows the production cost of each article manufactured, and includes the cost of materials, the direct or productive labor cost, and the indirect expense or burden. It is therefore a record of prime cost of production. The cost ledger shows the productive cost, selling cost, and the general and administrative expenses, and is a complete cost record.

Wage Systems. — There are several systems or plans of paying wages, among the most common of which are the day rate plan and the piece work plan. Others are the preferential, the premium, the bonus, and the profit-sharing plans.

The day rate wage plan consists of paying the workman a certain rate per day or per hour. The piece work plan provides for paying the workman for the exact amount of work done by him, measured by the number of articles or parts he turns out.

The other wage plans are too comprehensive for proper treatment in this book.

Burden. — The indirect factory expense or burden includes the salary of the superintendent, wages of the foremen and other unproductive or indirect labor, cost of factory supplies, rent, light, fuel, and power, insurance, maintenance or upkeep, taxes, depreciation, etc. In other words, burden includes every expense connected with the production of an article except the cost of materials and the direct labor cost.

The indirect expense or burden cost is found in the accounts in the general ledger. The costs of materials, and of direct or productive labor, are found separately in the cost ledger

and collectively in the general ledger. Separate accounts and separate pay rolls may be kept for direct and indirect labor, or only one account and one pay roll may be kept for both; in the latter case it would be necessary to analyze the account or pay roll to find the two labor costs.

Distributing Burden. — When the cost of burden has been found, it is distributed over each of the articles manufactured during the period in one of several ways. The following are some of the methods of distributing burden most commonly used in connection with modern cost systems: direct labor cost method; direct labor hour method; direct labor and material method; new machinery method; new pay rate method. The method to be used will depend upon the wage system under which the factory is operated, the nature of the products, and other factory conditions.

When the direct labor cost method of distributing burden is used, the ratio is found by dividing the total burden cost by the total labor cost for any given period. Thus if the total burden cost for a month is $3000, and the total labor cost is $6000, the ratio of burden is 50%, and this percentage is added as burden to each article manufactured during that month. Hence, if the material in one of these articles cost 70 cents, and the labor on it cost 90 cents, the prime cost would be $1.60, and the cost of burden would be 45 cents; the cost to make or factory cost would be $2.05.

The direct labor hour method of distributing burden is based on workmen's time instead of labor cost, the hour being taken as the unit of time. The rate per hour is found by dividing the total cost of burden for the period by the total number of labor hours, and the percentage thus found is added as burden to the prime cost. This method is regarded by cost accountants as more equitable and satisfactory than the direct labor cost method.

By the direct labor and material method the total cost of burden is divided by the cost of both material and labor for the period, to find the percentage of burden. This method is practicable only when the material forms the greater part of the prime cost of the article.

The student is referred to the special books on cost keeping for a further explanation of the methods of distributing burden, their treatment here being necessarily brief.

Production Reports. — When the finished products are sent to the stock rooms, or to the sales department, a " Production Report " is made out, which shows the names or numbers of the goods, the quantities, and the factory cost. From this report an entry is framed in the Finished Stock record, or purchases journal, debiting Finished Goods and crediting Materials, Direct Labor, and Manufacturing Expenses. The Finished Goods account corresponds to the Purchases account in a mercantile business.

When the goods turned over to the sales department are charged to Finished Goods account at market price instead of at factory cost price, some nominal account should represent the difference between the two prices to show the manufacturing profit. Some accountants use the general Profit and Loss account for this purpose, while others construct a special account.

Goods in Process. — At the end of a fiscal period, the goods in process of manufacture are inventoried at their factory cost, and this is found in the same way as for the finished products.

SHOE MANUFACTURING BUSINESS

Shoe Manufacturing. — The statements of principles and practices heretofore made regarding manufacturing, and the forms illustrated therewith, will apply to almost any kind of manufacturing industry. The transactions which follow are especially designed to illustrate

the application of these principles and practices to, and the use of some of the forms in, a shoe manufacturing business.

The shoe business was selected to illustrate modern manufacturing because the industry of making shoes ranks near the head of the manufacturing activities of the United States. This typical American industry employs about $300,000,000 of capital, and over 200,000 persons, and turns out over 250,000,000 pairs of shoes a year.

Organization. — The modern shoe factory is usually organized into five departments, viz.: Leather Room, where the soles are cut and heel pieces are put together; Cutting Room, where uppers and linings are cut; Fitting Room, where uppers are made (upper parts put together); Bottoming Room, where the uppers are lasted, the soles and heels put on, and the shoes finished; Shipping Room, where the sock linings and laces are put in, and the shoes are ironed, dressed, inspected, and made ready for shipment. Each room is under the charge of a foreman, and the entire factory is under the direction of a superintendent.

In some of the very large shoe factories, where nearly all of the work is done by machinery, the organization of the factory and the work done in each department differ somewhat from that described above.

Materials. — In the manufacture of shoes, leather is the principal material used for the outside, and leather and cloth for the inside. Some shoes have cloth uppers, and leather or rubber outsoles. Other materials which enter into the making of shoes are thread, eyelets, buttons, etc., and are called " findings."

Lasts and Patterns. — For the shaping and making of shoes, lasts and patterns are required. Lasts are wooden and iron forms, known as " first lasts," and " second lasts." First lasts are the exact sizes and shapes which the finished shoes will be, and are used when the uppers are being attached to the soles. The second lasts are only approximately the sizes and shapes of the finished shoes, and are used in the supplementary operations, after the shoes have been lasted; that is, after the uppers have been sewed to the soles.

Patterns are used for cutting uppers and linings. This cutting is done by hand in some factories, and by machines in others. When machines are used for cutting, dies are used instead of patterns. Dies are also used for cutting insoles and outsoles.

Production. — From the earliest times until about the middle of the nineteenth century, footwear was made entirely by hand, with the aid of simple tools, such as lapstone, hammer, awl, and pincers; but during recent years, the ancient way has been displaced by a system of machines which turn out perfect shoes by the hundred in the time it took the old-style workman to make a single pair. In the making of every good shoe in the modern shoe factory, no less than 58 different machines are used. These machines are of the most delicate and intricate nature, are nearly human in their operation, and more than human in the accuracy and perfection of their results.

Shoes are made by several processes, and in various styles, sizes, and widths, and the customer's order indicates what is wanted in these respects. Each kind and style of shoe is designated by a name and a number, and each shoe bears the factory number and size on the top lining.

Each lot is given an order number, and this number, together with the details affecting the preparation of the shoe upper, are written on tags — one for each lot of shoes — which are sent to the foreman of the cutting room. Others containing the details regarding the sole leather are sent to the leather room, while a third set of tags is sent to the foreman of the bottoming room. On the back of each set of tags are printed the names of the different opera-

SHOE PRODUCTION ORDER TAG

Tops

Case No.		Pairs	Description					Grade	Qual. Wt.	
Pattern		Foxing Perf.	Lace Stay Perf.	Butt. Fly	Collar	Tip	Vamp Perf.	Back Stay	Laces	Bows
Lining	Topband	Fly. Or. L. S. Lin'g	Eyelets	Buttons	Labels	Emb's'ng	St. No. on Lin'g	Sizes	Cartons	Bot. St'p
Cutting Instructions					Fitting Instructions			Special Instructions		

Pairs	Width	1	½	2	½	3	½	4	½	5	½	6	⅛	7	½	8	½	9	Entered

McKay

Last	Heel	Edge	Sh'nk St'p	Fr. St. T'hd	Welt	Finish	Sole	In-sole	Coun ter	Sock Line
Special		For						Wanted		

BACK OF SHOE PRODUCTION ORDER TAG

A deduction will be made from the regular price on inferior work. Anyone who fails to report a damaged shoe will have to pay for same. PUT YOUR NAME opposite the work you do.

Outsides	Upper Marker
Skiver	Date Out
Vamp Linings	Staying Qtrs.
Top Bands	" Fox
Stitch Stay	" Side Vps.
Labels	Stitch Fox
1st Closer Qtrs.	" Tips
" " Fox	2nd Closer
" " Side Vps.	Beading
" " Back Vps.	Stitch Edges
Cementing Vps.	Eyeletting
" Qtrs.	Butt. Holes
" Fox	Stitch Lace Stays
Folding Vps.	Vamping
" Qtrs.	Toe Seaming
" Fronts	Barring
" Fox	Lace and Tie
Assembler	Breast Scourer
Puller Over	1st Scourer
Laster	2nd Scourer
Tacker	Wheeling 1st
McKay Sewer	Edge Trim.
Seat Nailer	Inker
Fair Stitcher	Wheeling 2nd
Cementer	Edge Setter
Leveler	Sand Paper
Heeler	Cuffer
Slugger	Heel Burnisher
Breaster	Finisher
2nd Laster	Cleaner
Heel Trim	Stamper
Sockliner	Tip Fixer
Lacer	Inspector
Ironer	Packer
Dresser	Creaser

tions covered by the tag, with spaces opposite for the names of the operatives who do the work. These tags are production orders; they follow the shoes from one department to another; then, after being checked, they are sent to the superintendent's office, and from there to the cost department, and finally back to the office from which they originated.

The form of production order, or shop tags, and the method of distributing them, vary in different shoe factories, owing to the difference in the organization of the factories, and in the grades of shoes manufactured. In some factories several copies of the production order, which are printed on ordinary paper, are fastened to the shop tag, or complete order, the back only of which contains the names of the operations, and spaces for the names of the operatives.

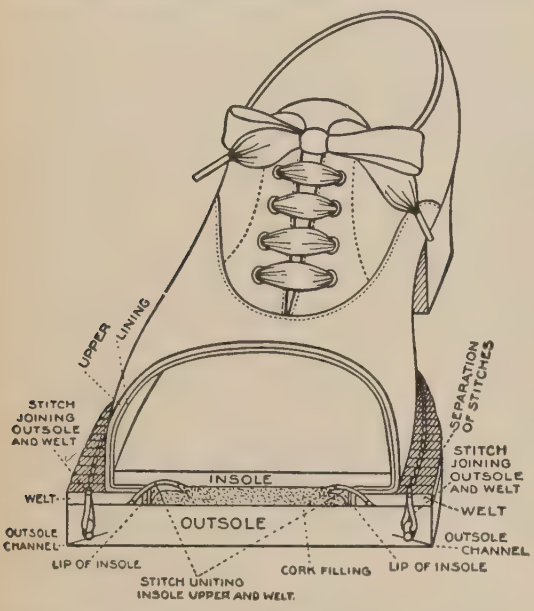
The production particulars are typewritten on all copies of the order, by manifolding, and the set is sent to the superintendent of the factory, or direct to the leather room, if there is no superintendent.

After the soles and heels have been cut out, and the proper records have been made on the back of the tag, the leather order is detached, and the remainder of the set is sent to the cutting room, where it is handled in the same way, after which the remainder of the set is sent to the next department, and so on until the lot is finished. The shop tag is sent to the shipping room, or packing room, with the finished goods.

Processes. — There are three general processes of sewing the uppers to the soles of the shoes by machines, known as the "McKay Process," "Goodyear Welt Process," and the "Goodyear Turn Process."

By the McKay Process, stitches are passed through a groove or channel in the outsole, and into and through the underlaps of the upper and insole, inside the shoe.

By the Goodyear Welt Process, which is similar in method to the hand-sewed process, the sole is sewed to a narrow strip of leather called a "welt," which has been previously sewed along the edge of the shoe, beginning where the heel is placed, and ending at the same point on the opposite edge. By this process the inside of the shoe is left smooth, as the stitches are on the outside, instead of on the inside, as in the process previously described.



By the Turn Process the sole is sewed to the upper, with both parts turned inside out, after which the shoe is turned right side out, and finished. As there is no inner sole in turned shoes, they are more flexible and easier to the foot than are shoes made by the other processes.

Finished Goods. — After the goods are finished, they are packed in cartons (paper boxes), properly labeled, one pair in each carton, and the filled cartons are packed in wooden boxes, or cases, and shipped.

In this work, it will be assumed that the shoes are made "on order," by both the Goodyear Welt Process and the Turn Process, the original orders being taken and sent in by traveling salesmen. Duplicate orders, or "re-orders," are sent by the customers direct to the house, or given to the salesmen when they call.

GENERAL EXPLANATION

Records. — Only the general records of the business are kept in the accounting department. All orders are handled by the sales and shipping departments. The bill and charge system is in operation in the sales department. All freight shipments are made under the straight bill of lading, unless otherwise required, and all bills are made in triplicate on billing machines, the original bill being sent to the customer, the duplicate to the bookkeeper, and the triplicate being placed in the sales binder for reference.

Books Kept. — The books which will be kept in this business are journal, general ledger, sales ledger, expense ledger, general cash book, petty cash book, sales journal, voucher register, and notes receivable and notes payable books. The forms of these books are illustrated, or are the same as before used, except the journal, which has two debit columns, — Notes Receivable, and General, — and two credit columns, — General, and Accounts Receivable.

Distribution. — The distribution charges in the voucher register will be made in accordance with the following classifications:

Real Estate, for cost of all permanent improvements made on the land and buildings.

Maintenance of Real Estate, for cost of repairs on buildings.

Machinery and Equipment, for cost of new machinery purchased, boilers, engines, motors, inside electric wiring, piping for heat or light, belting, etc., and cost of setting up or installing machinery purchased, and for cost of equipment.

Tools, for cost of new tools, and movable articles used about the factory in connection with production, as rollers, trucks, movable scales, time recorders, etc.

Materials, for invoice cost of all materials used for production purposes, as leather and findings.

Freight Inward, for cost of freight on materials purchased.

Direct Labor, for cost of productive labor on goods manufactured.

Office Equipment, for cost of safes, desks, chairs, typewriters, billing machines, adding machines, filing cabinets, letter copying devices, time recorders other than those purchased for use in the factory.

Manufacturing Expenses, for cost of all indirect expenses connected with production. Some of these expenses are Factory Supplies, Indirect Labor, Fuel, Light and Power, Repairs and Renewals, Royalties, etc.

Lasts and Patterns, for costs of lasts, patterns, and dies.

Selling Expenses, for cost of expenses connected with the sales of the goods. They include salesmen's salaries and expenses, advertising, circularizing, postage on same, shipping department wages and supplies, freight outward, insurance and taxes on finished goods, etc.

General Administrative Expenses, for cost of administration and general expenses. They include salaries of officers and office help, office expenses, office supplies, office postage, telephone charges, telegrams, corporation taxes, etc.

PRELIMINARY WORK

DECEMBER 1, 19—

The W. J. Hilton Shoe Company was organized as a business corporation Jan. 1, 19—, with a capital stock of $200000, par value, $100 a share, of which $180000 worth has been issued. The present stockholders, and their holdings, are as follows: W. J. Hilton, $85000; E. M. Hilton, $40000; E. C. Wardner, $35000; (Teacher), $10000; E. M. Merriam, $9000; (Student), $1000.

The president of the corporation is W. J. Hilton; vice president, E. C. Wardner; secretary, R. H. Merriam; treasurer, (Student); manager, (Teacher).

The members of the board of directors are W. J. Hilton, E. M. Hilton, E. C. Wardner, (Teacher), and (Student).

The salary per year of the president is $3000; of the treasurer, $2400; of the secretary, $1800; and of the manager, $3600.

The low salaries of the officers are due to their large holdings of the stock, which insures their getting a proportionately large share of the profits in dividends. If much of the stock were held by outsiders, these salaries would be much larger, and more in keeping with the services rendered.

The business has been continued since its organization, and is at present in active operation. For the purpose of giving the student practice in making the business records and the statements of results of a going manufacturing concern, he will take up the work at the begin-

ning of the last month of a fiscal period, and continue it until the end of the period, making the records in his own set of books.

The trial balance taken Nov. 30, 19— shows the following balances in the general ledger. You will then enter these balances in your general ledger, allowing one-fourth of a page space to each account. Make the date of entry *Dec. 1, 19—* and write *Balance* in the explanation column.

TRIAL BALANCE, NOVEMBER 30, 19—

THE W. J. HILTON COMPANY

Land	10000.	
Buildings	63742.50	
Machinery and Equipment	55903.25	
Tools	4376.85	
Lasts and Patterns	12589.60	
Office Equipment	3580.40	
Good Will	30000.	
Materials	156163.65	
Goods in Process	84109.20	
F nished Goods	13416.60	
Freight In	3339.32	
Accounts Receivable	43996.47	
Notes Receivable	4895.	
Interest	126.70	
Cash	22582.78	
Capital Stock		180000.
Reserve for Depreciation on Buildings		15943.73
Reserve for Depreciation on Machinery and Equipment		2824.55
Reserve for Depreciation on Lasts and Patterns		8118.95
Reserve for Depreciation of Office Equipment		1064.52
Reserve for Bad Debts		2895.10
Vouchers Payable		30629.
Notes Payable		13500.
Surplus		21893.
Sales		422189.85
Returned Purchases		1362.10
Returned Sales	2685.40	
Allowances to Customers	362.75	
Discount on Sales	8491.14	
Direct Labor	132440.60	
Manufacturing Expenses	20995.	
Selling Expenses	22616.36	
General Administrative Expenses	10838.49	
Discount on Purchases		6831.26
	707252.06	707252.06

EXPENSE LEDGER

In order to reduce the number of operating expense accounts in the general ledger, controlling accounts may be opened with each main division of expense, a subsidiary expense ledger being provided for the detailed accounts coming under each division. This is a further development of the plan of special ledgers, each one being connected with the general ledger by means of a controlling account. In addition to a fewer number of accounts to be carried in the general ledger, the practice results in a better systematizing of the work, the clerical work may be more satisfactorily assigned to different clerks in a large office, and a smaller number of special columns is necessary in books of original entry.

In this set, a subsidiary ledger is used containing three sections for Manufacturing Expenses, Selling Expenses, and General Administrative Expenses, respectively. In the manufacturing section, accounts should be opened for the accounts listed below which belong to this group, and for other accounts as they arise in the December transactions; likewise in the sections for Selling Expense and General Administrative Expense, accounts should be opened for each subsidiary account listed in the groups below. Each account should be debited with the proper amount under date of December 1, such amounts representing the total expense of that class from January 1 to November 30. The total balances of the accounts of each class agree with the balances shown by the controlling accounts with the general ledger trial balance.

Manufacturing Expense	Jan. to Nov.
Fuel, Light, and Power,	3547.50
Repairs and Renewals,	1125.
Royalties,	6371.20
Insurance on Machinery, etc.,	203.25
Taxes on Machinery, Materials, etc.,	216.52
Indirect Labor,	4580.
Factory Supplies,	4951.53
	20995.
Selling Expense	
Salesmen's Salaries,	10468.70
Salesmen's Expenses,	7906.60
Shipping Department Wages,	2200.75
Shipping Department Supplies,	1033.40
Insurance on Finished Goods,	287.48
Taxes on Finished Goods,	223.15
Freight Outward,	496.28
	22616.36
General Administrative Expense	
Office Salaries,	6416.67
Office Help,	3542.85
Office Supplies,	185.40
Insurance on Plant,	126.
Taxes, Corporation,	119.37
Misc. Office Expense,	448.20
	10838.49

Another method of handling detailed expense accounts is by providing a special book for Analysis of Operating Expenses. This book would contain the expense items in detail coming under each division with twelve parallel money columns for each month of the year. The detailed items are transferred each month in total to the proper columns. The Analysis Book at the close of the year would show comparative expense items by months for the entire year.

Accounts Receivable

In your sales ledger construct accounts with each of the following concerns, allowing one-fourth page to each account, and enter on the proper side the date, terms, and amount due from each. See that the total of these debit footings equals the amount of Accounts Receivable, as shown in your general ledger.

The accounts receivable are as follows:

Hub Shoe Co., Boston, Nov. 25, net 30, 2/10,	2786.45
Dodge & Rice, Boston, Aug. 4, 4 mos.,	4210.
Pond & Eaton, Boston, Nov. 3, net 30,	1782.45
Providence Boot & Shoe Co., Providence, R. I., Oct. 5, net 60,	1242.50
E. F. Woods & Co., Providence, R. I., Nov. 24, net 30,	1446.
Sam Stone & Co., Danbury, Conn., Nov. 20, net 30, 2/10,	798.50
Geo. H. Deane & Co., Hartford, Conn., Nov. 28, net 30, 2/10,	1342.75
New Haven Trading Co., New Haven, Conn., Nov. 27, 2/10,	2836.70
E. M. Lyons & Co., New Haven, Conn., Oct. 30, net 30,	628.50
Bay State Shoe Co., Worcester, Mass., Nov. 25, 3/15,	3245.50
Marsh, Fielding Co., Chicago, Nov. 15, 2/30,	4697.50
Quaker Shoe Co., Philadelphia, Nov. 18, 3/30,	6255.75
Hamilton, Brown Shoe Co., St. Louis, Mo., Oct. 1, sight draft 60 ds.,	4875.20
Pittsburgh Furnishing Co., Pittsburgh, Pa., Nov. 20, 2/15,	4219.70
Rich, Lantz & Harris, Cleveland, O., Sept. 14, 90 ds. net,	3628.97

Unpaid Vouchers — Vouchers Payable

In your envelope marked " Voucher Jacket File " you will find invoices from other persons which make up Vouchers Payable, as shown by the credit side of Vouchers Payable account in the general ledger. Remove these invoices from your envelope and prepare a voucher jacket for each invoice, according to the instructions given below. (See form of voucher jacket and back of same on page 270, and read again what is said on page 269 regarding the voucher jacket.) No purchases ledger will be used in this work, as the voucher register takes the place of that book.

No. 2780. — Invoice, J. Russell & Co. Number the voucher jacket, but do not date it. You will be instructed to do that later. Next write the name and address of the creditor, date of the invoice (in the left-hand date column), and on the same line write the word *Invoice*, the terms, and the amount. Attest the correctness of the record on the jacket by writing your name on the line over the word " Bookkeeper," and have your teacher, or whomever he may designate, sign as manager. Number the voucher jacket 2780.

An analysis of the invoice shows that it represents a purchase of machinery and equipment, amounting to $283.57, of tools, $3.75, of materials for use on addition to factory, $6.88. These and the other facts should be recorded on the back of the voucher jacket. Write the number, and the amount of the voucher, and the name of the creditor on the top of the form, on the back of the jacket. Next write *Machinery and Equipment*, $283.57, on the first blank line under Sundries, *Tools*, $3.75, on the next line, and *Real Estate*, $6.88 on the following line, and *November* (current year) on the top line. You have now completed the work on the voucher jacket for the present, and made the distribution of the invoice.

Pin the invoice face upward on the front of the voucher jacket, fold the same and place it in your Voucher Jacket File.

No entries will be made in the voucher register for the unpaid vouchers on hand at this time, as they represent the business of the preceding month, at which time proper records were made on the books.

No. 2781. — Invoice, Bracket Mfg. Co. This shows a purchase of production materials. Prepare a voucher jacket in general accordance with the instructions given above.

No. 2782. — Invoice, Parry Bros. & Co. This represents a purchase of materials to be used in enlarging the factory.

No. 2783. — Invoice, Cutler & Porter. Proceed as in No. 2781.

No. 2784. — Bill, Frank C. Perkins. Charge the full amount to Machinery and Equipment under Sundries.

Nos. 2785, 2786, 2787, 2788. — Invoices, Collieson Bros.; Cutler & Porter; H. M. Sciple & Co.; Collieson Bros.

When in doubt about the distribution of an invoice, see Distribution, page 281.

No. 2789. — Invoice, National Brass and Iron Works. Charge to Office Equipment under Sundries.

In order to take advantage of discounts allowed on purchases, or to pay invoices promptly when due, it is customary to either file the invoices under proper dates, usually a few days before maturity, in "tickler files," or to record them under proper dates in a "tickler" book. A tickler file has numerous compartments, numbered to correspond to the days of a month, with the name of the month on the outside. The tickler is usually an ordinary record book, the months and days being written in it as required.

Notes Receivable

In your envelope marked " Cash Drawer " you will find the following notes which constitute the Notes Receivable balance in the general ledger:

Nos. 233, 234, 235, 236. Take these notes from your envelope and enter them in your notes receivable book, after which return them to the envelope. See that the footing of the amount column in your notes receivable book agrees with the balance of the Notes Receivable account in the general ledger.

Notes Payable

The following notes are outstanding and constitute the Notes Payable balance in the general ledger. Enter the notes in your notes payable book, and see that the total agrees with the balance of the Notes Payable account.

No. 174. — Date, Nov. 1, in favor of E. J. Leonard, for money borrowed, payable at your office on demand, with interest, at 6%, $5000.

No. 175. — Date, Nov. 10, in favor of the Commercial Bank, for money borrowed, payable at the Commercial Bank in 30 days, $3500.

No. 176. — Date, Nov. 20, in favor of the Commercial Bank, for money borrowed, payable at the Commercial Bank in 30 days, $5000.

No. A I. — Enter the balance of cash, which is the balance in the bank, in your cash book and on the stub of your check book, extending the amount into the net receipts column in the cash book and on the left stub of the check book. You will keep the debit of the account with the bank on the left stub of your check book in this work, and the credit of the account on the right stub.

TRANSACTIONS

December 1, 19—

No. 1. — Check. Sam Stone & Co. Payment of invoice of November 20.

Enter the check in the cash book, crediting *Sam Stone & Co.*, for the full amount of the invoice in the Accounts Receivable column, and debiting Discount on Sales in the special column for the amount of the discount. Extend the amount of the check into the Net Receipts column. All payments by customers who discount their bills will be handled in this manner in the follow-

ing transactions; and in every case, the net or actual amount of cash received will be entered in the Net Receipts column, as well as in the other column to which it belongs.

Some of the larger business concerns divide the general cash book into two books, one of which is called the "credit cash book," and is used for a record of the receipts; the other is called the "debit cash book," and is used for a record of the payments. The general cash book or books are kept by the cashier or treasurer, but the posting is done by the bookkeepers. This is called an "internal check," and provides for the checking of the work of one employee by another, the object being to prevent fraud or peculations on the part of those who handle the cash of the concern.

Keep your books posted to date.

No. 2. — Regular weekly pay roll.

Prepare a voucher jacket No. 2790, payable to R. H. Merriam. Date it both at top and side with the current date, and write *Pay Roll* in the explanation column, and the proper amount in the outside money column. Attest the jacket and have it approved by the manager. It is unnecessary to fill out the receipt form at the bottom of this jacket.

Acting as treasurer make a voucher check (see form on page 269) to the order of the secretary for the amount of the voucher. Number the check, and write on it the number of the voucher in the proper place, and enter it in the cash book. (See illustration of cash book on page 274.) Be sure to write the number of the check and the number of the voucher in their respective columns in the cash book, and to extend the amount into both the Vouchers Payable debit column and the Net Disbursements column. Check the entry. Place the check in Vouchers for Others.

Fill out the back of the jacket by writing the number, amount, name of payee, when paid, and number of the check. Charge *$2831.50* to Direct Labor, *$110* to Indirect Labor, under Manufacturing Expense, *$115* to Ship. Dept. Wages, under Sell. Exp., and *$72* to Salaries, under Gen. Adm. Expenses.

Next enter the voucher jacket in the voucher register as shown in the illustration on pages 272 and 273, extending the total amount into Vouchers Payable Cr. column, and the amounts of the separate items into the proper distribution columns. Write *S. D. Wages $115*, in the Account column under Selling Expenses and *Off. Sal. $72* in the Account column under Gen. Adm. Expenses. Write the date, and the number of the check, in the proper Paid columns. Next write the current month and year at the top of the back of the voucher jacket, to show that it has been recorded. Pin the pay roll to the jacket, fold the same, and file in the Paid Voucher Jacket File.

No. 3. — Invoice, J. H. Steele & Co. For office supplies. Prepare a voucher jacket. Number the jacket with next consecutive number. Make the proper record on the back of the jacket, charging the purchase to Office Supplies under General and Adm. Expenses.

Record the jacket in the Voucher Register, writing *Inv. 12/1* in the Explanations column, the name of the account (Office Supplies) and the amount under General and Administrative Expenses. As treasurer draw a voucher check for the amount of the bill, and enter it in the cash book. Write the name of the creditor in the Name column, *Invoice 12/1 net*, in the Explanations column, the number of the check, and the number of the voucher, in their respective columns, and the amount in the Vouchers Payable column and in the Net Disbursements column. Check the entry, since it will not be posted, as you are not keeping a purchases ledger. All payments to creditors whose invoices we discount will be handled in this way; in every case the actual amount paid will be entered in Net Disbursements column, as well as in the other column to which it belongs.

Complete the record on the jacket. Fill out the receipt blank, excepting the date and signature, attach the check to the jacket, and place in Vouchers for Others. File the invoice in Paid Vouchers File.

No. 4. — Duplicate charge bill, Dodge & Rice. Enter in the sales journal, numbering the entry and the bill, *3975*, and charge direct to the account in the sales ledger from the bill. Number the bills consecutively.

F. O. B. — The abbreviation F. O. B. or f. o. b. means free on board; that is, the goods are to be delivered either free to the transportation company at the place of shipment, or free of cartage and transportation charges to the place of destination, depending upon the agreement of the parties or the custom in the trade, and this is indicated by the name of the place following the abbreviation.

In the above case the goods are to be delivered free at Boston; that is, free to the place of destination, but the delivery does not include cartage from the freight house or dock of the transportation company to the warehouse or store of the purchaser.

On f. o. b. receiving point shipments, the transportation charges are usually prepaid by the shipper, but if not so paid, as in the above case, they are paid by the customer, who deducts the charges from the invoice at the time of settlement, sending the freight expense bill with his remittance.

No. 5. — Pay voucher No. 2780.

Take voucher jacket No. 2780 from the Voucher Jacket File, detach it from the invoice, date it at the top (current date), and draw a check for the amount. Fill out the receipt blank, excepting the date and signature, and attach the check to the jacket. Complete the record on the back of the jacket, and make the proper record in the cash book. Remember to check the entry in the cash book.

Place the voucher jacket in Vouchers for Others, and the invoice in Paid Vouchers File.

No. 6. — Draw a check, favor of the secretary, R. H. Merriam, for $50 for petty cash uses. Charge Imprest Fund in Cash Book in net disbursements column. (See explanation of Imprest Fund, page 271, and illustration of entry on page 275.)

You will assume that Mr. Merriam has had the check cashed and has turned in the currency. You will not be required to handle the petty cash in this work, but will make the records in the petty cash book. Enter the amount in the left-hand money column of the Petty Cash Book, writing for explanation, *Rec'd from Imprest Fund.*

The petty cash book is usually kept by the cashier's assistant, but it may be kept by another, and there may be more than one such book in use. Of course, the person in charge of the petty cash book would handle the cash and make the payments, which should be supported by proper vouchers.

December 3

Nos. 7, 8. — Duplicate charge bills, Hamilton, Brown Shoe Co.; E. F. Woods & Co. (See No. 4.)

Remember to post all charge sales direct from the bills, as soon as the bills are received and entered in the sales journal, and to post daily all credits to customers, so that the accounts will show their true current condition. Also to keep the cash book posted to date.

No. 9. — Memorandum, J. W. Evans, traveling salesman, salary and expenses for November. Prepare a voucher jacket, draw a check, and make the proper entry in the cash book extending the amount into both the Vouchers Payable column and the Net Disbursements column. Check the entry. Under Selling Expenses on back of the jacket, charge *$350* to Salesmen's Salaries and *$241.27* to Salesmen's Expenses. Record the voucher in the Voucher Register, extending the items to the proper accounts under Selling Expenses.

Remember to enter the date and number of the check in the Date column when a voucher is paid, and to complete and file the voucher jacket.

No. 10. — Memorandum, J. L. Marcy, traveling salesman, salary and expenses for November. Proceed as in No. 9.

The above expense bills are properly chargeable to the November business, but excepting for cost keeping, and other statistical purposes, there is no objection to charging them to the December business since they will in either case be included in the expenses of the current fiscal period. Some accountants do not close the voucher register until all bills for the month have been recorded.

No. 11. — Invoice, Frank C. Perkins. Charge to Machinery and Equipment.

Nos. 12, 13. — Bill, City Gas and Electric Co. Invoice, E. A. Conway Coal Co. Charge each to Fuel, Light, and Power under Manufacturing Expenses.

No. 14. — Invoice, Western Leather Co.

No. 15. — Pay vouchers Nos. 2795, 2796, 2781, 2785. Deduct the discount from the gas bill.

No. 16. — Petty cash memorandum. Enter each item in your petty cash book, extending the amount into the right-hand money column. Make proper explanation of each entry. (See No. 6.)

No. 17. — Check, Pond & Eaton. See their account in your ledger and enter accordingly.

No. 18. — Deposit all cash on hand. Indorse the note of the Providence Boot & Shoe Co. and leave it at the bank for collection. Make the proper record in your notes rec. book.

Before making a deposit, the cash should be proved. If your cash does not prove at any time and you are unable to find the cause of the "over," or "short," adjust the same, as heretofore explained.

Make the entry in detail in the check book for the deposit.

December 4

No. 19. — Invoice, J. Russell & Co. Pay this bill. Charge the waste to Factory Supplies under Manufacturing Expenses.

No. 20. — Duplicate charge bill, Marsh, Fielding Co.

Freight Prepaid. — The prepayment of transportation charges is usually a matter of agreement between purchaser and seller, but it is sometimes a custom in the trade, or a necessity, as in cases where there are no freight or express agents at the delivery points. Freight charges may be prepaid as the result of agreement or custom, or as an accommodation to the purchaser. In the first case, they are charged to Selling Expenses, usually through a special Freight Paid-Expense account, or a general Freight Outward account, which is analyzed at the end of each month. In the latter case they are charged to the customer.

The prepayment of transportation, and the disposition to be made of the charges, are indicated on the shipping order; as, "Freight Paid-Expense," "Express Paid-Expense," or "Freight Paid and Charge," or "Express Paid and Charge," or by other definite similar expressions.

December 5

No. 21. — Check, Providence Boot & Shoe Co. See their account and apply the payment accordingly.

No. 22. — The bank notifies you that the sight draft on the Hamilton, Brown Shoe Co., St. Louis, for $4875.20, which was drawn Nov. 27, has been paid, and the amount placed to your credit, less collection, $5.25. Charge General Administrative Expense. Make the proper entry in the cash book for the sight draft, extending the amount into the Accounts Receivable and Net Cash Receipts columns, and in the check book for the credit. Show in the check book the total amount of the draft, and the collection, as well as the net amount, so that the entry can be easily audited.

Nos. 23, 24. — Duplicate charge bill, Dodge & Rice. Pay vouchers Nos. 2788, 2789

No. 25. — Invoice, Charles Koss & Bro. Charge Shipping Supplies, under Selling Expenses, and explain in Explanations column.

No. 26. — Statement, United Shoe Machinery Co. Pay the amount. Charge Royalties, under Manufacturing Expenses.

The Royalty System. — Most of the machines used in the "Bottoming Room," instead of being bought outright, as are most of the machines in the "Fitting Room," are leased from the manufacturers, who charge a certain sum per shoe for the use of each machine. This charge is called a "royalty," and ranges from ¾ of a cent to 6 cents on a shoe. Manufacturers of leased machines keep them in repair, and, of course, bear any loss by depreciation.

By the royalty system, the shoe manufacturer has the use of the leased machines without having any of his capital invested in them, and has no charges to pay for repairs, nor allowances to make for depreciation.

Each leased machine has a device attached to it for registering the number of shoes on which the machine has operated, and from this register the royalty record of the machine is made.

No. 27. — Invoice, A. D. Jackson Saddlery Co. Pay this invoice less discount.

December 6

No. 28. — Invoice, Parry Bros. & Co. This material is for use in enlarging the factory.

Nos. 29, 30. — Invoice, Cutler & Porter. Duplicate charge bill, George H. Deane & Co.

No. 31. — Cash sale, J. T. Ferris. Enter in the cash book only, extending the amount into the Cash Sales and Net Receipts columns. Check the entry. (See page 274.)

No. 32. — Petty cash memorandum. (See No. 16.)

December 7

No. 33. — Invoice, F. A. Walsh & Co. (Be careful about the distribution.)

Nos. 34, 35. — Duplicate charge bills, Rich, Lantz & Harris; New Haven Trading Co.

The freight charges on No. 34 were prepaid and charged to the customer, as shown by the duplicate charge bill. Enter only the amount of the sale in the Item column of the sales journal, and on the next line write *Freight outward, on above*, and place the amount, $5.36, before the Item column. Carry the freight outward items along until the end of the month, then credit the amount to Selling Expenses (Freight Outward).

When the freight charges are prepaid at the time the goods are delivered to the transportation company, the receipt is acknowledged on the bill of lading, and memorandum copy, by the agent or cashier of the company. When the shipper has an account with the company, he stamps "*To be Prepaid and Charged to (shipper)*" on the bill of lading, to the right of the description of articles, etc.

In this business The City Carting Company attends to all freight and carting matters, and renders monthly statements. The signed and receipted bills of lading, and memorandum copies, are turned in by them to the shipping department daily.

No. 36. — Letter, check, and note, with interest added, Dodge & Rice (see their account).

December 8

No. 37. — Check, The Hub Shoe Co. See their account.

No. 38. — Draw on E. M. Lyons & Co. at sight, for invoice of Oct. 30, and leave the draft at the bank for collection. Deposit all cash (currency and checks) on hand. Write or dictate a letter to E. M. Lyons & Co., notifying them that you have drawn on them and requesting that they honor the draft.

No. 39. — Pay roll.

No. 40. — Invoice, Diebold Safe Co. Pay the invoice.

Nos. 41, 42. — Duplicate charge bill, E. F. Woods & Co. Cash sale (check), Wm. M. Lee & Co.

Nos. 43, 44. — Checks, Pittsburgh Furnishing Co.; New Haven Trading Co. Be sure to refer to the account in the ledger before entering a remittance.

December 10

Nos. 45, 46. — Invoices, Western Leather Co.; Charles Koss & Bro.

No. 47. — Check, Geo. H. Deane & Co.

Nos. 48, 49. — Deposit all cash on hand. The bank notifies you that your note in their favor for $3500, due to-day, has been charged to your account.

No. 50. — Pay vouchers Nos. 2794, 2783, 2782, 2797.

December 11

Nos. 51, 52. — Invoice, Collieson Bros. Duplicate charge bill, Bay State Shoe Co.

December 12

Nos. 53, 54. — Invoice, O'Neil Oil & Paint Co. Cash sale, Jones & Allis.

No. 55. — Check, Dodge & Rice. Payment, bill Dec. 1, less freight charges. Treat the deduction from the bill as a discount on sales.

Other ways of recording a deduction of this kind would be to charge it to Freight Outward, or to Allowances to Customers through the journal. By any of these ways, however, the proper deduction from revenue would be shown on the books.

No. 56. — Note, Providence Boot & Shoe Co. and protest, petty cash memo.

Charge the protest fees to the Providence Boot & Shoe Co., in the petty cash book.

Post the entry. No entry is required for the note since it was merely left for collection.

Make proper notation in the bill book.

Write or dictate a letter to the Providence Boot & Shoe Co. requesting an explanation for allowing their note to go to protest.

No. 57. — Deposit all cash on hand. Leave the note of Dodge & Rice, due on the 14th inst., at the bank for collection.

No. 58. — Pay vouchers Nos. 2784, 2799, 2810.

December 13

No. 59. — Invoice, A. D. Jackson Saddlery Co. Pay the invoice.

No. 60. — Duplicate charge bill, Hamilton, Brown Shoe Co. The terms are special.

No. 61. — Letter, check, and note, Bay State Shoe Co. Enter the full amount of the discount in the cash book.

December 14

No. 62. — Cash sale, Chas. D. Pomeroy.

No. 63. — Pay vouchers Nos. 2802, 2803.

No. 64. — Check, The Hub Shoe Co. Payment of note as per bill book. Take the note from your Cash Drawer, write " Paid " across the face, and place it in Vouchers for Others.

No. 65. — Deposit all cash on hand, and leave at the bank for collection E. F. Woods & Co.'s note, due 20th. Have the Quaker Shoe Co.'s note, due Jan. 15, discounted, and the proceeds placed to your credit.

Enter the face of the note in the Accounts Receivable Cr. column, the amount of the discount in the Discount on Sales column, and the proceeds in the Net Cash Receipts column, with proper explanations to support the records. Place a small cross mark in the folio column to indicate the special amount. (See page 274.) Post Notes Receivable entries as usual.

In this work, discount on notes will be treated as interest, and will be charged or credited to Interest account. The amount of discount in each case will be entered in the Discount on Sales column of the cash book on the same line with the note, and a cross mark will be placed in the folio column. The Discount columns will be analyzed at the end of the month, and the proper amounts placed as footings of the columns. The Accounts Receivable column will be analyzed in the same way. (See cash book, page 274.)

This manner of treating discount on notes permits of the cash book showing, in the Net Receipts and Net Disbursements columns, the actual cash received and disbursed, and, therefore, admits of rapid and easy auditing.

DECEMBER 15

Nos. 66, 67, 68. — Invoice, B. S. Green Co. Pay roll. Duplicate charge bill, Sam Stone & Co.

Nos. 69, 70, 71, 72. — Checks, Rich, Lantz & Harris; E. F. Woods & Co.; Marsh, Fielding Co.; Hamilton, Brown Shoe Co.

No. 73. — Pay voucher No. 2804.

No. 74. — Petty cash memorandum. Your draft on E. M. Lyons & Co. was protested for nonpayment. (See No. 56.)

DECEMBER 17

Nos. 75, 76, 77. — Invoice, H. M. Sciple & Co. (Machinery and Equipment.) Duplicate charge bill, Pond & Eaton. Check, Dodge & Rice.

No. 78. — Letter and check, E. M. Lyons & Co.

No. 78 a. — Deposit all cash on hand.

No. 79. — Letter, Providence Boot & Shoe Co. Acting on instructions from the manager, you will write or dictate a letter to the Providence Boot & Shoe Co., expressing regret at their failure, and accepting their offer of 60 cents on a dollar, for your book claim and their note protested on the 12th inst.

DECEMBER 18

Nos. 80, 81. — Duplicate charge bill, E. B. Lewis & Co. Check, Geo. H. Deane & Co.

No. 82. — Pay vouchers Nos. 2807, 2808.

DECEMBER 19

Nos. 83, 84. — Invoice, J. H. Steele & Co. Invoice, F. A. Walsh & Co.

Nos. 85, 86, 87. — Duplicate charge bill, Pittsburgh Furnishing Co. Check, Quaker Shoe Co. Petty cash memorandum.

DECEMBER 20

Nos. 88, 89, 90. — Invoice, Boston Last Co. Cash sale, R. S. Sherwood & Co. Duplicate charge bill, Bay State Shoe Co.

No. 91. — Letter and check from New Haven Trading Co. See their account in the ledger for the terms. Give them credit for $1530.61.

Divide the remittance by 100 %, less the rate of discount allowed by the terms, and credit the customer for the amount represented by the quotient (as, $1500 ÷ .98 = $1530.61).

No. 92. — Deposit all cash on hand.

No. 93. — Your note due to-day, favor of your bank, has been charged to your account.

DECEMBER 21

Nos. 94, 95, 96. — Invoice, Western Leather Co. Duplicate charge bill, The Hub Shoe Co. Check, E. F. Woods & Co.

DECEMBER 22

Nos. 97, 98. — Pay roll. Cash sale, Hudson & Foster.

DECEMBER 24

Nos. 99, 100. — Invoice, Chas. Koss & Bro. Duplicate charge bill, Empire Shoe Co.

No. 101. — Check, Providence Boot & Shoe Co. In full payment of the bill of Oct. 5, and their note protested of Dec. 12. The check is for 60% of these two amounts, as per agreement.

Enter in the cash book, *Providence Boot & Shoe Co.* for 60% of bill, and *Notes Receivable* for 60% of note. You have lost 40% of the note, and 40% of the bill of Oct. 5; also the protest fees. Losses from bad debts are provided for by a Reserve for Bad Debts account, which is credited at the end of each fiscal period with a certain proportion of the profits of the business, and charged with such losses as may occur during the period. Therefore, in your journal, frame an entry, *Reserve for Bad Debts*, for the total loss, and *Providence Boot & Shoe Co.*, for the loss on the book account, including the protest fees, and *Notes Receivable*, for the loss on the note.

No. 102. — Pay vouchers Nos. 2786, 2787, and 2809.

No. 103. — Deposit all cash on hand. The note of E. F. Woods & Co., which was left for collection, has been paid, and the amount placed to your credit.

DECEMBER 26

Nos. 104, 105. — Invoice, J. Russell & Co. The nails are for use in enlarging the factory; the belting is an addition to the equipment. Pay the bill. Invoice, Collieson Bros.

Nos. 106, 107, 108. — Duplicate charge bills, The John Warner Co.; Quaker Shoe Co.; Pittsburgh Furnishing Co.

Nos. 109, 110, 111. — Checks, E. F. Woods & Co.; Sam Stone & Co.; Hamilton, Brown Co.

DECEMBER 27

Nos. 112, 113, 114. — Invoice, Cutler & Porter. Duplicate charge bill, Sam Stone & Co. Check, Rich, Lantz & Harris.

Nos. 115, 116. — Check, New Haven Trading Co. Intended to pay balance of bill Dec. 7, less special discount, 1%, $5.12. (See their account.) Pay voucher No. 2816.

DECEMBER 28

Nos. 117, 117 a. — Cash sale, B. F. Howe & Co. Memo. of goods returned, The Hub Shoe Co.

Nos. 118, 119. — Pay voucher No. 2815. Deposit all cash on hand.

DECEMBER 29

Nos. 120, 121, 122. — Pay roll. Duplicate charge bills, E. M. Lyons & Co.; Rich, Lantz & Harris.

No. 123. — Check, Bay State Shoe Co. In payment of invoice, Dec. 11. Refer to their account, and see if the remittance is correct.

There are two methods of treating overpayment. One is to return the amount of the overpayment by check, or in currency if the amount is small, and the other is to credit the customer's account for the amount of the overpayment. You will follow the second method in this case.

Frame an entry in the cash book for the correct net amount of the invoice, and for the discount, and another entry for the overpayment, with proper explanation. Notify the customer of the error, and state how you have treated it.

Nos. 124, 125. — Pay voucher No. 2818. Petty cash memo.

December 31

Nos. 126, 127, 128. — Duplicate charge bill, Marsh, Fielding Co. Cash sale, W. P. Hoyt & Co. Pay voucher No. 2820.

No. 129. — Bill, City Carting Co. Pay this bill. Charge *Freight Inward*, $243.52. *Freight Outward*, $38.48, in voucher register.

Nos. 130, 131, 132. — Memo. goods returned, Empire Shoe Co. Bill, Mead, Mason & Co., for addition to the factory.

Pay this bill. Deposit all cash on hand.

No. 133. — The salaries of the officers and general manager for the month are due. Prepare a voucher jacket, and draw the checks. One-third of the general manager's salary is charged to Mfg. Expenses (Indirect Labor).

The transactions for the month, and also for the fiscal period, are now completed, but all of the records have not been made. It usually takes a few days in which to get the reports from the different departments, showing cost of goods manufactured during the month, and of goods in process, the value of finished goods, materials and factory supplies on hand, the amount of wages and salaries accrued, inventories of office equipment and office supplies, and the salary and expense accounts of the traveling salesmen.

In the meantime, the transactions of the next month would be taking place, and be recorded in the books of original entry. In this work, only the business of the fiscal period ending December 31 will be considered, and therefore no records will be made for the transactions of the next period.

You will now pencil foot your petty cash book, and analyze the entries, preparatory to transferring them to the voucher register. Rule a sheet of analysis paper with four columns, which you will head, *Accts. Rec.*, *Real Estate*, *Mfg. Exp.*, *Gen. & Adm. Exp.*, respectively, and enter in these columns the items which appear in the petty cash book, including the personal accounts items.

Be careful about the classification of the items, and when in doubt, refer to Distribution, page 281. Note the item of factory supplies.

Next, rule off and foot the analysis sheet, after which enter the titles of the accounts and the footings of the columns in the explanation column of the petty cash book, writing *Summary* over the entry. Single rule and foot the summary to show that it agrees with the pencil footing of the disbursements column. Next balance and rule off the petty cash book, and on a slip of paper make a memorandum of the summary under the current date. Pin the memorandum to the petty cash vouchers, and prepare a voucher jacket, using, for explanation, *Petty cash disbursements, December, 19—*, for total amount, and distributing according to the summary. (Don't forget the factory supplies item.)

Enter the voucher jacket in the voucher register as follows: After writing the number and the date in the proper columns, write in the In Favor of column *Imprest Fund*, in the Explanations column, *Dec. disbursements*, in the Vouchers Payable Cr. column, *Total amount*, in the Account column, *Accounts Receivable* (*amount*), and check the entry, as the items comprising the amount have already been posted, and the amount will be posted in the footing of the special column.

Extend the other distribution items into their respective columns, and write the current date in the Paid date column.

Draw a check payable to the cashier and enter in the cash disbursements.

Nos. 134, 135. — Memorandums, J. W. Evans, J. L. Marcy. Prepare voucher jackets, and enter. These expenses are to be charged to the December business, but as the reports are received after the close of the month, the vouchers will be paid in the next fiscal period.

Pencil foot the voucher register and prove the footing. The amount of the Vouchers Payable Cr. column should agree with the total of all the other columns. Next rule and ink foot the register.

Rule off and foot the sales journal and post the footings (see No. 34). Foot separately the regular and special items in the Accounts Receivable and Discount on Sales columns of the cash book, and write the totals and titles, as shown in the form on page 274.

Balance and rule off the cash book, and post the footings.

No. 136. — Statement, Commercial Bank. Reconcile the bank balance, and list the outstanding checks on the stub of the check book.

In business, the canceled checks would of course accompany the statement.

Call at the teacher's desk for your paid jackets and canceled checks, if they have not been returned to you.

Post the voucher register in accordance with the following instructions: First, post the footings of the Vouchers Payable Cr. column to the credit of Vouchers Payable, and place a check mark, with the folio of the account over it, opposite the amount. Next post the unchecked Sundry Debits entries. (The footing of the General column is not posted nor checked.) Then post the footings of the remaining columns to the debit of their respective accounts, and check the amounts. Analyze the different sections of expense when posting to the expense ledger.

Rule off and post the journal and post the special column items.

Take a trial balance of your general ledger.

ADJUSTING ENTRIES

No. 137. — Prepare adjusting entries as follows:

(*a*) Reserves for depreciation.

1. On Buildings	2%
2. On Machinery and Equipment	12½%
3. On Lasts and Patterns	25%
4. On Office Equipment	10%

Charge Manufacturing Expense with depreciation on Buildings, Machinery and Equipment, and Lasts and Patterns. Charge General and Administrative Expense with depreciation on Office Equipment.

(*b*) The Tools inventory amounts to $2500. Charge the difference between the book value and the inventory to Mfg. Expense. (Credit Tools.)

(*c*) Set up a reserve for Loss on Bad Debts for 2% of the outstanding Accounts Receivable.

(*d*) Accrued Salaries and Wages as follows:

Direct Labor	$676.50	
Indirect Labor	112.50	Debit Mfg. Expenses
Shipping Dept. Wages	37.50	Debit Selling Expenses
Office Salaries	24.00	Debit Gen. and Ad. Expenses

(*e*) Royalties Accrued amount to $312.45.

(*f*) Calculate the accrued Interest on Notes Payable and Notes Receivable.

The following inventories have been reported by the different departments, as per schedules on file:

INVENTORIES, DECEMBER 31, 19—

Assets

Materials per schedule	# 1	$3428.60
Factory Supplies "	# 3	410.34
Fuel "	# 6	468.10
Goods in Process "	# 2	6172.15
Shipping Supplies "	# 5	229.85
Finished Goods "	# 4	17600.
Office Supplies "	# 7	40.50

Close the journal, and post adjustment entries.

Take an adjusted trial balance.

Make an abstract of the sales ledger, and see if it agrees with the controlling account.

Make an abstract of Vouchers Payable Cr. from the voucher register, and compare it with the balance of the Vouchers Payable account, and with the unpaid vouchers.

Make an abstract of the accounts in the expense ledger and see that they agree with the controlling accounts in the general ledger.

The following order should be observed in the operations of closing the books for the year.

(*a*) Make and post the adjusting entries in Number 137.

(*b*) Take an adjusted trial balance.

(*c*) Prepare a Statement showing cost of goods manufactured and sold. (See model form on page 296.)

(*d*) Prepare a Profit and Loss Statement. (See model form on page 297.)

(*e*) Prepare a Balance Sheet. (See model form on page 298.)

(*f*) Make Closing Entries in your journal to close all manufacturing, and profit and loss accounts. (See model form, page 299.)

(*g*) Post Closing Entries and rule the ledger accounts.

(*h*) Close the Profit and Loss account into Surplus.

(*i*) Take a final trial balance.

Prepare a balance sheet beginning with the most fixed asset (real estate), and ending with the quickest or most liquid (cash). Treat the balance of Imprest Fund Account as cash on

THE DARLINGTON SHOE COMPANY

EXHIBIT B. SCHEDULE I

Statement showing Cost of Goods Manufactured; year ended Dec. 31, 19—

Raw Materials Used			
Inventory Jan. 1, 19—		$12396 18	
Purchases to Dec. 31, 19—	$153817.62		
Less:			
Return Purchases	952.35	152865 27	
Freight In		371 84	
Total Cost		$165633 29	
Less:			
Inventory, Dec. 31, 19—		14580 10	$151053 19
Labor			109345 25
Manufacturing Expenses:			
Fuel, Light and Power		$2410 75	
Indirect Labor		4580	
Factory Supplies		9078 75	
Depreciation on			
Buildings		1208 05	
Machinery and Equipment		5103 50	
Lasts and Patterns		7604 20	
Repairs and Renewals		2625 50	
Royalties		5647 27	
Insurance on Buildings and Equipment		1242	
Taxes on Buildings and Equipment		1948 70	41448 72
Total Charges to Manufacturing			$301847 16
Add:			
Goods in Process, Jan. 1, 19—			24686 31
			$326533 47
Less:			
Goods in Process, Dec. 31, 19—			17661 45
Net cost of Goods Manufactured			$308872 02

hand. The amount should agree with the balance of the petty cash book. Arrange the items on the credit side in the order of capital stock, current liabilities (you have no fixed liabilities), and surplus.

Closing the Ledger. — You will close the ledger by passing the entries through the journal; that is, by making the closing entries in the journal and posting them to the general ledger in the regular way (see model closing entries, page 299). First construct a Manufacturing Account and a Profit and Loss Account in the general ledger, and by proper closing journal entries close the accounts necessary according to the Statement of Cost of Goods Manufactured (see above model form), and the Profit and Loss Statement (see model form page 297).

In closing the ledger the following method should be adopted (see model closing entries, page 299). Frame journal entries, closing Returned Purchases and Freight In into Raw

THE DARLINGTON SHOE COMPANY

Exhibit B

Profit and Loss Statement, year ended Dec. 31, 19—

Gross Sales	$414387 06	
Less: Returns	1523 81	
Net Sales		$412863 25
Deduct:		
Cost of Manufactured Goods Sold		
On hand, Jan. 1, 19—	$14631 50	
Cost of goods manufactured during the year, see Schedule 1	308872 02	
	$323503 52	
Deduct: On Hand 12/31	12713 25	310790 27
Gross Profit on Sales of Manufactured Goods		$102072 98
Deduct:		
Selling Expenses	$24418 47	
Gen. Adm. Expenses	16010 98	40429 45
Net Operating Profit		$61643 53
Add: Other Income Items		
Interest on Notes Receivable	$109 36	
Discount on Purchases	7310 53	7419 89
Total Income		$69063 42
Deduct: Other Expense Items		
Interest on Notes Payable	$175 62	
Discount on Sales	8952 75	
Allowances to Customers	418 25	
Loss on Bad Debts	3750	13296 62
Net Profit		$55766 80

Materials Account. Inventory of January 1, as shown by Goods in Process Account; the balance of the Raw Materials Account, Direct Labor, Manufacturing Expenses, and the Inventory of Goods in Process, December 31; are each to be closed into the Manufacturing Account. Close the balance of the Manufacturing Account into the Finished Goods Account. The balance of the Manufacturing Account should agree with the Net Cost of Goods Manufactured (see form, page 296). Close Returned Sales, and the balance of the Finished Goods Account (cost of goods sold) each into the Sales Account; and Gross Profit on Sales of Manufactured Goods, shown by sales account, into the Profit and Loss Account. Discount on Purchases, Selling Expenses, General Administrative Expenses, Interest, Discount on Sales, Allowances

THE DARLINGTON SHOE COMPANY

EXHIBIT A

Balance Sheet, December 31, 19—

ASSETS

Real Estate and Equipment:					
Land	$25000				
Buildings	100750				
Machinery and Equipment	51035				
Tools	5450				
Lasts and Patterns	33069				
Office Equipment	3580			$218884	
Good Will				25000	
Current Assets:					
Cash	$26853	65			
Notes Receivable	32233	80			
Accounts Receivable	63386	45			
Accrued Interest on Notes Receivable	84	70			
Merchandise on hand					
Raw Materials, Goods in Process	35853	45			
Finished Goods	12713	25			
Factory Supplies	1242	50		172367	80
Prepaid Assets:					
Taxes	$1452	40			
Insurance	547	60		2000	
Total Assets				$418251	80

CAPITAL, LIABILITIES, AND SURPLUS

Capital Stock:					
Preferred outstanding	$100000				
Common outstanding	150000			$250000	
Fixed Liabilities:					
Mortgage Payable				25000	
Current Liabilities:					
Notes Payable	$7500				
Vouchers Payable	17799	84			
Accrued Interest on Notes Payable	150				
Accrued Interest on Mortgage	900				
Accrued Salaries and Wages	257	57		26607	41
Reserves:					
For Depreciation of Buildings and Equipment	$16534	50			
For Depreciation on Lasts and Patterns	22602				
For Depreciation on Office Equipment	716				
For Loss on Bad Accounts	5261	83		45114	33
Surplus:					
Balance, January 1, 19—	$15763	26			
Net Profit, January 1–December 31, 19—	55766	80		71530	06
Total Capital, Liabilities and Surplus				$418251	80

MODEL CLOSING ENTRIES

December 31, 19—

Returned Purchases			$952 35	
Raw Materials				$952 35
Returns and allowances on purchases of raw materials				
Raw Materials			371 84	
Freight In				371 84
To close cost of freight to Raw Materials				
Manufacturing			24686 31	
Goods in Process				24686 31
To close inventory of Jan. 1 into Mfg. account				
Manufacturing			151053 19	
Raw Materials				151053 19
Cost of raw materials used in manufacturing for the year ending Dec. 31, 19—				
On hand 1/1/19—	$ 12396.18			
Net purchases	152865.27			
Freight In	371.84			
	165633.29			
On hand 12/31/19—	14580.10			
	151053.19			
Manufacturing			150793 97	
Labor				109345 25
Manufacturing Expenses				41448 72
To close the cost of Labor and Mfg Expenses to the Manufacturing account				
Goods in Process			17661 45	
Manufacturing				17661 45
To take out of the Mfg. account the goods in process of Dec. 31, 19—				
Finished Goods			308872 02	
Manufacturing				308872 02
To close to Finished Goods the cost of goods manufactured for the year (See Statement of Cost of Goods Manufactured)				

NOTE. — The remaining closing entries are the same as in a mercantile business, following the Profit and Loss statement as a source of information for the amounts and accounts.

to Customers, and Loss on Bad Debts, are each to be closed into the Profit and Loss Account. The balance of the Profit and Loss Account is to be closed into the Surplus Account.

Foot and rule off all nominal accounts and all accounts in the sales ledger that balance.

You will now adjust the inventories and accruals. Frame an entry debiting the proper accounts for the inventories of December 31 (see your original entries) and credit Sundry Inventory Account. To adjust the accruals after the books are closed it is necessary to reverse the entries made to adjust the accruals before the books are closed.

You have now completed the records and statements of the business for the fiscal period, ending December 31, 19—, and the books are in proper shape to receive the records of the next fiscal period. As previously explained, a portion of the profits of a corporation is distributed to the stockholders in the form of dividends, which are declared by the Board of Directors at certain periods, as quarterly, semi-annually, and annually. You may assume that the Board of Directors of the company have declared an annual dividend of 10% from surplus

on the outstanding capital stock, payable on January 25, 19—, to stockholders of record of January 15. Frame a journal entry for the dividend declared.

In practice, the stock books would be closed January 15 to give the secretary an opportunity to make up a list of persons holding stock on that date. This list would be turned over to the treasurer, who would send dividend checks to the stockholders on January 25, at which time the Dividend account would be charged with the total amount.

Take a final Trial Balance.

EXERCISES

The following exercises are to be prepared on loose paper:

1 The petty cash book of the Gile Manufacturing Company shows the following entries for December, 19—, dates being omitted: Office postage, $5, $5, $2.25; Supplies for Shipping Dept., $4.50, $4, $2.50, $3.50, $5.75; Express In, $1.15, $.75, $1.40, $3.10, $.45; Express Out and Charge, $2.15, $1.85, $3.40, $.95; Express Out Expense, $1.45, $.50, $1.35, $2.75, $1; Extra window cleaning, office, $1.75; Glazing factory windows, $3.55; Telegrams, $.57, $.25, $.42, $1.12, $.62, $.38, $.25; Protest fees, $1.50, $2.25, $1.75, $2.50; Extra carting: Inward, $1.50, $1, $1.75, $2.50; Outward, $3, $2.50; $1, $2.25; Lettering office window, $1.75; Shop signs, $3.50; Repairing superintendent's office chair, $1.25; Donations: Factory Christmas entertainments, $5; Tickets, Policemen's Benevolent Association, $3; Printing, shop tags, $4.50; Shipping labels, $3.75; Office envelopes, $2.50; Coin wrappers, $1.25; Pay envelopes, $2.25; Great Bear Water, office use, $1.75; Cab hire: Office, $1.50, $1.25, $3; Factory, $1.25, $1.50; Repairing rollers: Factory, $1.25; Shipping Room, $2.50.

Analyze the above entries, and make a summary of the same.

2 The balance sheet of the Dunning Manufacturing Company, as of June 30, 19—, showed the following production inventories: Materials, $21652.24; Goods in Process, $7941.83; Finished Goods, factory cost, $34659.65; Factory Supplies, $1512.88. Their trial balance at the end of the fiscal year showed: Purchases of Materials, $53439.72; of Factory Supplies, $3918.76; Purchases Returned, $324.15; Allowances on Purchases, $117.53; Freight In, $612.97; Direct Labor, $13287.29; Manufacturing Expenses, $9643.71; Depreciation, $2406.25. Their production inventories at the end of the period were: Materials, $19264.36; Goods in Process, $8476.34; Finished Goods, factory cost, $31214.82; Factory Supplies, $2263.30.

From the above data prepare the Manufacturing Account section of the Manufacturing, Trading, and Profit and Loss Statement.

3 The balance sheet of the Drake Manufacturing Company for the fiscal period ended December 31, 19—, showed the following assets and liabilities, capital stock, and surplus, the cents being omitted: Cash, $31420, Investments (marketable), $16340; Notes Receivable, $9320, and Accounts Receivable, $114930, less depreciation on both, $6212; Raw Materials, $38470; Goods in Process, $13290; Finished Goods, $228336, less depreciation, $11416; Buildings, $17360, less depreciation, $868; Land, $8450; Machinery and Equipment, $192470, less depreciation, $15397; Tools (revalued), $4483; Furniture and Fixtures (revalued), $8940; Patents, Models, and Patterns, $82480, less depreciation, $16496; Sinking Fund Investment, $22500; Good Will, $50000; Loans Payable, $15000; Notes Payable, $18730; Accounts Payable, $162470; Mortgages Payable, $50000; Preferred Stock, $250000; Common Stock, $250000; Sinking Fund, $22500; Surplus, $22400. Deferred Assets; Insurance, $5200; Interest Receivable, $550; Advances on Freight Deliveries, $2400; Deferred Liability: Interest Payable, $5450.

Prepare the above balance sheet in proper form, arranging the assets and liabilities in the order of fixed and current.

4 From the following data prepare a balance sheet and a statement of earnings of the United Manufacturers Company, December 31, 19—: Assets: Cost of Properties, including trade marks, patent rights, real estate, buildings, and machinery and equipment, $16359861.95; Net Additions during the year, $1630.30. Investments in Affiliated Companies, $575000. Deferred Charges to Operations: Insurance, Interest, and Other Periodic Expenses, prepaid, $124193.30; Expenses of Incorporation, $22298.34, less proportion written off, $3344.75. Inventories of Raw and Finished Products and Supplies on Hand, $4077973.79. Accounts Receivable, $1892705.86, less reserve for discounts, $50000. Notes Receivable, $98281.52. Advances, recoverable and to agents, $30336.49. Cash on Hand, in banks, and in transit, $572680.22. Liabilities: Cumulative Preferred Stock, $5000000; Common Stock, $15000000. Notes Payable, $2661563; Loans and Deposits to Officers, $222621.14, to others, $149555.50; Accounts Payable and Accrued Pay Rolls, $158554.33. Surplus, $————.

Sales, less returns and allowances, $9127542.87; Producing and Manufacturing Costs, $7224680.48; Gross Earnings, $————. Selling and General Administrative Expenses, $1125875.07; Earnings from Operations, $————. Miscellaneous Profits and Interest Received, $64259.69; Total Net Earnings, $————. Miscellaneous Charges: Interest on Loans and Deposits, $106923.96; Special Reserve for Discounts on Customers' Accounts, $50000; Dividends on Preferred Stock, $175000; Net Surplus Earnings, $————.

Show the entries which would be framed when a semi-annual dividend of $1\frac{3}{4}\%$ on the preferred stock has been declared out of surplus by the above company, and when the dividend has been paid by checks.

5 The annual statement, December 31, 1918, of the Central Leather Company showed assets as follows: Fixed Assets: Property Account, including timber lands, railroad and floats engaged in the lumber, glue, and other allied industrial operations, $67154412.21; Investments, $950228.04. Current Assets: Inventories: Leather in Stores, Lumber, and Other Finished Products, $17353347.05: Hides and Leather, raw and in process, and Other Materials, $36588335.62; Accounts Receivable, $8790850; Notes Receivable, $992,080.80; Cash in Banks and on Hand, $4325982.98; Deferred Charges to Profit and Loss, $306405.43. The capital stock and liabilities were as follows: Preferred Stock, $33299050; Common Stock, $39701030.50. Fixed Liabilities: First Mortgage Five Per Cent Bonds, $36764150; The United States Leather Company Debentures, $3401000; Real Estate Mortgage, $100000. Current Liabilities: Notes Payable, $15955000; Foreign Drafts, $585005.54; Accounts Payable, $1149085.25; Accrued Interest on Bonds and Debentures, $493561.87; Dividend on Preferred Stock, payable January 1, 1919, $582732.50. Reserves: Fire Insurance, $123034.41; Miscellaneous, $501785.98.

Prepare a consolidated balance sheet for the above in proper form, and show the surplus, arranging the items in the order given.

The profits for the year, after deducting all losses and expenses, were $3403680.11, and the income from investments was $144210.24. The deductions from revenue were: Interest on Bonds and Debentures, $2053387.50; dividend on preferred stock, $2330930. The surplus on January 1, 1918, was $4642633.23.

Prepare a consolidated profit and loss statement, showing the balance to surplus, the surplus for January 1, 1918, and the surplus for December 31, 1918.

From the balance sheet, prepare a detailed statement of the quick assets and current liabilities, and show the net surplus, stating which it is — quick assets or current liabilities.

6 In this exercise you will be required to find costs of goods in process and of finished goods, and to distribute burden by the direct labor cost method. (See Cost Keeping, and the paragraphs relating to the same, on pages 274 to 277.) Rule nine money columns, full length, on a

sheet of foolscap paper, and head the columns as follows: Materials, Labor, Prime Cost, Burden, Factory Cost, Expense, Total Cost, Profit, Selling Price.

From the data given below find the total cost of materials, the total labor cost, and the prime cost of the following goods in process, entering each article separately on the sheet, and heading the section, Goods in Process.

No. 1: M. (materials), \$139.50; L. (labor), \$56.04. No. 2: M., \$141.62; L., \$112.08. No. 3: M., \$104.18; L., \$92.25. No. 4: M., \$75.06; L., \$13.75. No. 5: M., \$92.12; L., \$6.19. No. 6: M., \$112.24; L., \$48.72. No. 7: M., \$124.85; L., \$104.25. No. 8: M., \$152.10; L., \$15.60. No. 9: M., \$176.90; L., \$140.35. No. 10: M., \$210.05; L., \$223.96.

Rule off all columns of this section, and head the next section, Finished Goods.

Next, on the same sheet, find the prime cost of each of the following articles of finished goods, the total cost of materials, the total labor cost, and the total prime cost: No. 1: M., \$2790.35; L., \$3052.08. No. 2: M., \$2807.25; L., \$3221.52. No. 3: M., \$2102.26; L., \$2603.06. No. 4: M., \$1484.14; L., \$1842.34. No. 5: M., \$1801.82; L., \$2300.32. No. 6: M., \$2303.38; L., \$2655.09. No. 7: M., \$2475.12; L., \$3096.36. No. 8: M., \$3038.08; L., \$3782.84. No. 9: M., \$3517.54; L., \$4254.32. No. 10: M., \$4162.46; L., \$5038.08.

Rule off all columns of this section, and head the next section, Summary.

Find the total costs of materials used in the goods in process, and in the finished goods, and the total labor costs, and show the same in the Summary section. Next find what percentage the labor cost of goods in process bears to the total labor cost, carrying the quotient to three decimal places, and show the same in the explanation column of this section. Then find the percentage of labor cost of finished goods in the same way, and show it in this section.

The overhead charges (Mfg. Exp.) for the period were \$10198.15, and the amount charged off for depreciation was \$4500. Find the total burden, and charge such a part of it to goods in process as you found the cost of labor on these goods to be of the total labor cost. Enter the amount in the Burden column of the goods in process section. Complete this section by finding the factory cost, and extending the amount into the proper column. Foot the columns. In the work of the following sections carry fractions to eight decimal places.

Deduct the amount of the burden on the goods in process from the total burden to find the amount to be distributed over the finished goods. Find the ratio of burden by the direct labor cost method, and distribute the burden over each of the articles, and place the amounts in the proper column. Foot the column. Next find the factory cost of each of the articles, and show the amounts in the proper column. Foot the column.

The selling and the general administrative expenses for the period were \$17635.76. The profit wanted is 20%.

Find the percentage of expense as follows: First, add the amount of the fourth element of cost to the total factory cost, which will give the fifth element of cost, or total cost; second, multiply this amount by 100%, plus the per cent of profit, to find the total selling price; third, divide the amount of the selling and the general administrative expenses by the total factory cost, which will give the percentage of expense. Distribute the expense over each of the articles and enter the amounts in the proper column. Foot the column.

Find the total cost of each of the articles, and show the amounts in the proper columns. Foot the column.

Find the profit on each of the articles and the selling prices of the same, and show the amounts in the proper columns. Foot the columns.

Using the model on page 275, prepare from your cost finding sheet, a diagram of cost finding for the finished goods, and show the results in the Summary section of the sheet. Rule off the section.

The following exercises are given for practice in schools which have adding machines:

7 Prove the postings to your sales ledger by listing first, the charge entries in the original books, second, the charge postings in the accounts in the ledger, and compare the totals; third, by listing the credit entries in the original books, and fourth, the credit postings in the accounts, and compare the totals. Prove the postings in your general ledger in the same way.

8 Prove your Accounts Payable account by listing first, the original credit balance and all your voucher jackets; and second, all paid jackets, and compare the difference in the totals with the balance of the account, as shown by your balance sheet. Verify the balance by listing the credit, and charge postings, as instructed in No. 7, and find the difference in the totals.

9 List and add the following items: 1423.64, 377.56, 713.86, 338.67, 674.28, 524.98, 289.24, 700.77, 580.92, 1342.86, 472.10, 1447.07, 750.95, 650.25, 657.39, 1028.11, 692.32, 1212.89, 469.67, 1918.70, 236.60, 690.04, 966.37, 1659.38, 103.63, 283.69, 505.53, 595.30, 1404.20, 3331.44, 2202.20, 4466.55, 1777.64.

10 List and add the following deposits and checks, and show the bank balance: Deposits, Balance. — 8375.92. 1. — 1254.06; 2. — 345.04; 3. — 402.53; 5. — 259.46; 6. —577.59; 7. — 359.87; 8. — 104.56; 9. — 240.57; 10. — 1145.22; 12. — 310.30; 13. — 240.57; 14.— 1161.10; 15. — 259.40; 16. — 1356.52; 17. — 631.30; 19. — 1226.29; 20. — 5142.36; 21.— 703.28; 22. — 592.46; 23. — 177.80; 24. — 111.19; 26. — 392.15; 27.— 817.93; 28.— 412.19; 29. — 1006.04; 30. — 1715.43. Checks: 243.24, 345.67, 1020.50, 65.01, 78.78, 220.34, 354.00, 41.00, 450.70, 66.00, 8.03, 5.00, 749.26, 1104.05, 143.10, 400, 267.76, 1059.90, 444.45, 19.10, 26, 4506.25, 700, 540.34, 2106.78, 1725.50, 346, 444.03, 1223.45, 54.35, 245.87, 1011.36, 104.01, 2775.50, 103.40, 3.13, 181.20, 1623.92, 19.60, 20.10, 53.80, 203, 1781.25, 120.19, 65.22, 13.37, 1210.32.

QUESTIONS

1 Define manufacturing, raw materials, and finished goods.

2 Explain what is meant by "industrial production," and state how it has been affected by the substitution of mechanical for human forces.

3 How do manufacturers dispose of their products?

4 What is meant by the "factory system"?

5 What is the purpose of organization, and how does it affect manufacturing?

6 Explain efficiency, as applied to manufacturing.

7 What do the activities of a manufacturer comprise? What is "stock keeping"? "Cost keeping"?

8 To what do the records of a manufacturing business relate? Explain how these records are kept with reference to what they show.

9 What is the distinctive account in a manufacturing business, and what does it show? How is it represented?

10 What other accounts are peculiar to a manufacturing business?

11 How may expenses be classified, and what are the advantages of such a classification?

12 Explain the analysis book, and state what you think is its use.

13 What is the purpose of a "purchase requisition," or of a "stock report"? Explain what is meant by a "purchase order," and state how it is usually made out, and what is done with it.

14 How are invoices and expense bills usually treated in a manufacturing business? What are necessary to make this system of records complete?

15 What is a voucher jacket? Explain its form and use.

16 Describe briefly the voucher register, and state how it should be proved before posting.

17 Explain the advantages of the form of cash book you used in the Shoe Manufacturing Business.

18 What is an "imprest fund," and how is it treated?

19 What is a "petty cash book," and to what book or books is it subsidiary? What is done with the entries in this book?

20 Explain the use of the stock ledger, and state what is meant by a "perpetual inventory."

21 Explain the two general methods of production in manufacturing, and state some of the commodities to which each method can be applied.

22 Explain what is meant by cost keeping, as applied to manufacturing and its principal objects.

23 What are the elements of cost? Using your own figures, draw a diagram of cost finding, and show the percentages.

24 What is a "production order"? A "material requisition"? A "labor ticket"? A "pay roll"?

25 How is cost divided, and how are the prime cost amounts found?

26 What is a "cost record"? A "cost ledger"?

27 Name six wage systems, and explain the two which are most generally used.

28 What is "burden," and what does it include? What other names are given to it?

29 When and how is the cost of burden found?

30 Name five methods of distributing burden commonly used in connection with cost systems. Explain two of these methods.

31 What is a "production report," and what record is made when one is received?

32 What account in a manufacturing business corresponds to the Purchaser's account in a mercantile business?

33 What is meant by "goods in process," and how is their inventory value found?

34 Name the departments into which a modern shoe factory is usually organized, and the work done in each department.

35 What materials are used in the manufacture of shoes?

36 What are "lasts" and "patterns," and what purposes do they serve?

37 How were shoes formerly produced? How are they produced now?

38 Explain the production order used in shoe manufacturing, and give some of the details of its use.

39 Name three processes of sewing the uppers to the soles or shoes, and explain each process.

40 What is an Accrual account? When constructed, for what is it debited? For what credited? What entries are made in this account when the accruals are adjusted?

41 When and how are the accrual and inventory entries adjusted?

42 Explain in detail the Manufacturing account section of the Manufacturing, Trading, and Profit and Loss Statement, and state what the balance shows, and what item is brought down into the Trading account section.

43 How is the gross profit on trading found in the manufacturing business? How the net profit? To what account is the net profit or net loss of a manufacturing corporation carried?

44 Describe the usual form and arrangement of the balance sheet of a business corporation.

45 Explain in detail how you closed the accounts in the Manufacturing account section of your statement; in the Trading account section; and in the Profit and Loss section.

46 What entry should be framed, when a dividend has been declared? When it is paid in cash?

ANALYSIS OF FINANCIAL REPORTS AND STATEMENTS

The attention of the student has been repeatedly called to the importance of financial reports and statements, and to the necessity for care and originality in their preparation. The reason for this, which by now should be thoroughly appreciated by the student, is that the business man or the official of a company looks upon bookkeeping as a means to an end. He is much more concerned with the figures and reports drawn from the books at certain intervals than he is with the books themselves. He may know nothing of the technicalities of bookkeeping, but he expects a financial statement to be submitted to him which informs him about all the details of his business in a simple, direct, and easily understood manner.

In this work so far, the proper construction of these statements and reports has been given chief attention. Model forms of statements, which meet the conditions illustrated in the different practice sets, have been given for study and as an aid to the student in preparing such statements. The structure of the statements has been emphasized, and it has been assumed that the student has set for himself a high standard for finished work with proper attention given to all details.

Of even greater importance than the artistic construction of financial reports, however, is the ability to analyze and interpret them and to draw sound and intelligent conclusions therefrom. In other words, such statements are of value only as one has the ability to read them understandingly. One should train himself to make comparisons, to draw conclusions, to interpret the figures so as to obtain therefrom an accurate account of the finances of the business.

While the ability to do this is to a great extent the result of business experience, sound reasoning faculties, good judgment, and natural power of analysis, yet there are certain fundamental principles that will assist one to read and analyze a financial statement intelligently. There are certain things which one should naturally look for, depending upon the point of view of the reader, and to this end, a few suggestions are offered to aid in the interpretation of reports, whether it be from the standpoint of the merchant, the banker, the credit man, or the investor.

The analysis of the Profit and Loss Statement will first be considered, after which attention will be given to the Balance Sheet.

ANALYSIS OF PROFIT AND LOSS STATEMENT

1 Comparison of sales, profits, and operating expenses with preceding period or periods. This clearly indicates the growth and expansion of the business, or the opposite; it shows the ratio of increase in expenses to the increase in sales; and it also shows whether the expenses of a certain department have increased without a corresponding increase in results. Many other interesting comparisons may be made which should indicate the progress of the business. The practical value of such comparisons has given rise to a common use of the Comparative Profit and Loss Statement with figures for the current and preceding periods shown in parallel columns.

2 The calculation of percentages of profit and expenses results in a more graphic survey of the business of the period than is possible when the figures merely state amounts in dollars and cents.

Percentages may be calculated showing such results as the following:

(*a*) Per cent of gross profit on the cost of sales.

(*b*) Per cent of gross profit on the sales.

(*c*) Per cent of gross profit consumed by each class of operating expense.

(*d*) Per cent of net profit on volume of sales.

(*e*) Per cent of net profit on capital investment.

(*f*) Per cent of bad debts.

3 Turnover of Stock. — A merchant is always much interested in the "turnover" of stock. As the term is commonly used, the "turnover" for a period represents the cost of goods sold. From the cost of the sales we determine the number of times the merchant has turned his stock by the following method.

Divide the cost of goods sold by the average cost value of the stock carried; if the inventory figures are available for the beginning and the close of the period, and perhaps at semi-annual or quarterly intervals, such inventories are averaged to arrive at the amount of stock generally carried.

ANALYSIS OF THE BALANCE SHEET

Among the things involved in an analysis of the balance sheet, to which the attention of the reader or investigator may be directed, the following may be mentioned.

1 Ratio of Current Assets to Current Liabilities. — This is the first thing ordinarily looked for in an investigation of the balance sheet. As to what this relation should be depends upon the nature of the business, type of management, personnel of owners or officers, and other circumstances.

It is a tradition among bankers to require as a minimum two dollars of current assets for one dollar of current liabilities. In many cases, however, five to one would not be too large a ratio.

The excess of current assets over current liabilities is generally spoken of as the *working capital* of the business.

2 Relation between Invested Capital and Total Cost of Property and Equipment. — It is important to know whether the capital contributed has been used to buy machinery, equipment, land and buildings, looking toward a permanent and established business, or whether it has been spent in development, advertising, etc. In many balance sheets it will be observed that the greater part of invested capital has been used to acquire property and equipment. Here again, circumstances alter cases.

3 Book Value and Market Value of Stock. — If a corporation, the book value of the stock as compared with its market value should be determined. Book value of the stock per share is determined by dividing the total net worth or capital by the number of shares.

4 Earnings per Share. — If a corporation, the earnings per share for the current and preceding periods should be determined.

5 Reserve Accounts. — The question as to whether proper provision is being made for depreciation of fixed assets is important. This would be shown ordinarily by the existence of reserve accounts set up in the balance sheet against the several fixed assets. Proper provision will also have been made in a conservatively managed business for losses from bad debts.

6 Relation between Good Will and Capitalization. — The amount of Good Will shown on the books will indicate the policy of the business with regard to its capitalization. In a corporation, if both preferred and common stock are issued, it will often be found that the preferred stock has been issued against the net tangible property of the business, while the common stock issue is capitalized good will.

7 Relation between Accounts Receivable and Sales. — Examination of the balance sheet and profit and loss statement should be made to see that the accounts receivable are not too large in proportion to the sales. If goods are sold, for example, subject to a cash discount in thirty days, the accounts receivable on any date should not be greatly in excess of average monthly sales. Otherwise the customers are slow in making payments, indicating that there will be losses sustained in collections, or the credit department may not be following up credits as closely as should be done.

8 Contingent Liabilities. — Inquiries should be made to determine whether there are " contingent liabilities " against the business. It may be stated by way of explanation that a contingent liability is one which may arise as a result of the failure of some one else to perform his contract, or from any other cause which places an unexpected obligation upon the business. Notes receivable under discount, accommodation indorsements, guarantees and warranties, etc., are examples of contingent liabilities.

PROBLEMS IN ANALYSIS OF FINANCIAL STATEMENTS

1 The trading activities for the year ending December 31 are as follows:

Inventory, January 1	$204727
Inventory, December 31	277847
Net sales	801344
Selling expenses	31835
General administrative expenses	34712
Invested capital	512000

Calculate the following:

(*a*) Rate of gross profit on Cost of Sales

(*b*) Rate of gross profit on Sales

(*c*) Per cent of gross profit consumed by

(1) Selling expenses

(2) General administrative expenses

(*d*) Per cent of gross profit remaining

(*e*) Rate of net profit on capital

2 Calculate how many times the stock has been turned during the year in the following problem:

Cost of goods sold	$631712
Inventory, January 1,	214217
Inventory, December 31,	268682

3 The following is a comparative balance sheet at December 31, 1910, and at December 31, 1911, presented to the board of directors of the Western Company at its meeting January 5, 1912.

Assets	Dec. 31 1910	Dec. 31 1911
Land	$20000	$25000
Buildings	45000	45000
Machinery and tools	86000	89000
Horses, wagons and harness	10500	10500
Patents	6000	6000
Good will	25000	25000
Cash	28300	10300
Accounts receivable	29600	26550
Investments and bonds		15000
Inventory — Goods in process	10800	14690
Inventory — Material and supplies	6750	10300
Agency investments		3680
	$267950	$281020

Liabilities		
Bonds and mortgage payable		$20000
Notes payable	$35000	2000
Accounts payable	16400	19350
Reserves for depreciation	2500	6750
Discount on bonds		1000
Capital stock		
Preferred	150000	150000
Common	50000	50000
Surplus	14050	31920
	$267950	$281020

The land increase was due to appraisal based on rise in values of factory sites in the immediate vicinity.

Together with the balance sheet (page 308) there was submitted to the board a statement of income and profit and loss showing the profits of the year to have been $22120.

The directors state to the auditor that in view of the decrease of cash and accounts receivable, of the absence of dividends, and of the increase of capital liabilities, they are unable to ascertain what has become of the profits of the year.

Prepare a statement to show clearly how the Western Company has applied such resources of the year 1910 as have been lost in 1911, and the resources and profits of the year 1911.

4 On a sheet of analysis paper the assets and liabilities would be set up as they appear in the problem in parallel columns; the two columns to the right should be headed respectively " Increase " and " Decrease " and the increase or decrease in each asset and liability shown.

The results shown by such an analysis are as follows:

Net Increase in Assets	$13070
Add	
Net Decrease in Liabilities	4800
Net Increase in Surplus	$17870

Of the net profit as stated to the directors, however, $5000 was due to an increase in the book value of the land.

Deduct from	
Net Increase in Surplus	5000
	$12870

5 The balance sheets of the Greenleaf Manufacturing Company, at December 31, 1913, and December 31, 1914, may be summarized as follows:

	Dec. 31 1913	Dec. 31 1914
Good will	$200000	$230000
Land and buildings	450000	750000
Machinery	200000	400000
Tools	40000	80000
Unexpired insurance	3000	4000
Inventories	400000	375000
Accounts receivable	175000	250000
Cash	25000	20000
Investment in stocks and bonds	95000	
	$1588000	$2109000

Capital stock	$800000	$1100000
Bonds	350000	500000
Bank and other loans	70000	80000
Accounts payable	145000	125000
Accrued interest	7000	11000
Accrued taxes	4000	6000
Surplus	212000	287000
	$1588000	$2109000

During the year a dividend of 4% was declared and paid on the stock outstanding at the beginning of the year. $7000 was provided for the depreciation of the buildings, $16000 for machinery, and $4000 for tools. The bonds were sold for par, and the stock was sold at 90 and the difference was charged to good will account.

In the light of the above facts interpret the changes that have taken place in the financial position of the company between the two dates and, so far as possible, indicate how they were effected.

APPENDIX I

AUDITING

Auditing is the examining of the entries in books of accounts, and of the subsidiary and supporting records. Such an examination is called an " audit," and a person who makes it is called an " auditor."

The practice of auditing is an established profession. The professional auditor is usually an expert accountant, and many auditors are also certified public accountants, who practice under the authority of a certificate granted them by a State Board of Accountancy, or other similar body, and which entitles such accountants to use the abbreviation C. P. A. after their names.

Object of an Audit. — The principal object of an audit is the detection of errors and fraud in the records; that is, to determine whether or not the records are correct and complete, and the bookkeeping work has been honestly and efficiently done.

Term of Audit. — The space of time covered by an audit is called the " term of audit "; and this may be any time agreed upon between the auditor and his client; as, six months, one year, five years, etc. The first date of the term of audit is called the " initial date," and the last date, the " terminating date."

Kinds of Audits. — Audits are divided, with reference to time when made, into First Audit; Continuous Audit, usually once a month; Periodic Audit, usually once a year; Special Audit, also called an " Inspection," made on behalf of an intending purchaser, a creditor, a retiring partner, or on account of suspected fraud; Final Audit, for the adjustment of a partnership, or on the discontinuance of a business.

Audits are divided, with reference to different classes of business or activities, into Commercial Audits, which include trading, manufacturing, and mining concerns; Financial Audits, which include banks, insurance companies, public service corporations, building and loan associations, societies, clubs, etc.; and Municipal or Public Audits, which include the accounts of towns, cities, counties, states, and governments.

Only commercial audits, as they relate to trading and manufacturing concerns, will be treated in this book. For further information on auditing, the student is referred to the special books on the subject.

Duties of an Auditor. — An auditor should critically examine, or satisfy himself as to the accuracy of, all entries in the books of account made during the period under audit, inspect all available vouchers, and compare them with the records; verify all assets and liabilities as of the terminating date; make a report of his audit; and certify to the accuracy of the balance sheet.

Auditor's Working Papers. — The papers which an auditor uses in making an audit are called " working papers." These include trial balances, abstracts, balance sheets, analysis sheets, etc. In addition to these working papers, auditors use a notebook in which they make records of such matters as will assist them in making their report.

Kinds of Errors. — In examining entries in books of accounts, there are three kinds of errors, the presence of which the auditor should detect, or the absence of which he should prove. These are *intentional errors, technical errors,* and *errors of principle.*

Intentional errors are errors made for the purpose of perpetrating or concealing fraud. Technical errors are errors which are made through carelessness, such as posting to the wrong account, mistakes in footing, or carrying footings forward, etc. Errors of principle are of two kinds, viz., those of omission and those of commission. Errors of omission are: failure to provide proper reserves for depreciation of property subject to deterioration, or for shrinkage of values; failure to include in the assets and liabilities amounts accrued but not due, such as interest, insurance, taxes, etc., and prepaid charges. Errors of commission include mistakes made in framing original entries, such as charging or crediting items to capital accounts which should be placed to revenue or expense accounts, or vice versa.

Method of Audit. — The general principles of auditing apply to all kinds of audits, but the particular method of making an audit will depend somewhat upon the kind of audit to be made, the class to which the business to be audited belongs, and to the way the books and accounts are kept.

Some auditors check all postings in the ledgers, and verify all extensions and footings in the books of original entry. Other auditors use the analysis method of auditing, by which all general ledger accounts are analyzed on analysis sheets. This method is preferable for certain classes of audits.

Preparation for Audit. — Before beginning an audit the auditor should require that all postings be completed, all footings be inked in, all balances be struck, and a trial balance of the general ledger and abstracts of the subsidiary ledgers be taken, as of the terminating date. The trial balance and abstracts of the initial date should also be in the hands of the auditor.

Vouchers for all payments, and all other available vouchers, should be arranged in proper order.

When possible the cash on hand at the close of the terminating date, excepting petty cash, should be deposited in bank on the succeeding day, and the bank balance should be reconciled as of the terminating date.

Schedules of the inventories of the stock and other property on hand, duly certified, should be ready, as well as a list of notes receivable and payable, and of securities. A list of all overdue accounts should also be prepared.

A trading, profit and loss statement, if a trading concern, and a manufacturing, trading, and profit and loss statement, if a manufacturing concern, and a balance sheet, should be prepared.

And, finally, a complete list of all books, with the names of the clerks in charge of them, should be compiled.

Order of Procedure. — The first step to take in making a commercial audit is to prove the cash balance of the terminating date.

Prove Cash Balance. — As a preliminary to this step the bank book should be left at the bank to be written up, with a request that this be done as soon as possible. If the audit is begun on the following day, and all cash on hand, excepting petty cash, has been deposited, the check book and petty cash book (excepting when an Imprest Fund account is kept) will show the general cash balance to be proved. If the cash has not been deposited, the currency of the terminating date should be counted and listed, together with any items that may be carried as currency. Next, the checks on hand should be listed, after having been compared with the entries in the cash book, which entries should, of course, be within the term of audit. The amount of these two lists should be added to the balance in the bank in the check book.

If the audit is begun some time after the terminating date, and the cash was not balanced on that date, the cash should be balanced and proved on the beginning day. To this amount all payments since the terminating date should be added, and all receipts deducted to find the terminating balance.

After the cash balance and footing of the general cash book have been proved and checked, the petty cash balance should be proved and the currency listed, if no Imprest Fund account is kept, and the footings of the petty cash book proved and checked. A summary of the cash lists is sometimes made to be incorporated in the report.

Reconcile Bank Balance. — The bank balance should be reconciled as soon as the bank book is returned by the bank, and all deposit entries verified. The vouchers should be inspected, both as to amounts and indorsements, and any discrepancies noted. The existence of the checks which appear to be outstanding should be proven, by communicating with the payees, unless proper vouchers are on file.

Send Statements to Debtors. — Detailed statements of the open accounts in the sales ledger, showing the balances on the initial date, and the charges and credits from that date to the terminating date, with proper explanation of each item, should be sent in self-addressed and stamped envelopes to the debtors, with request to examine the statements and return them promptly to the auditor, with their approval or disapproval, and nature of the same noted thereon. When these statements are returned, they are compared with the accounts, and such accounts as are found to be in agreement are marked *Correct.* Note should be taken of any errors or omissions, and these should be investigated.

Request Statements from Creditors. — Requests should be sent to creditors with whom there are open accounts for complete statements of the client's account covering the term of audit, accompanied by self-addressed and stamped envelopes.

When these statements are returned, they are compared with the accounts, and such accounts as are found to be in agreement are marked *Correct.* Note should be taken of any errors or omissions, and these should be investigated.

While the statements are being returned and received, the auditor will be proceeding with the auditing of the other accounts.

Audit Notes Receivable. — The notes receivable on hand should be carefully examined to see that none are fictitious; and if the auditor has any doubts as to the validity of a note, he should communicate with the apparent maker, and obtain from him a verification of its genuineness or falsity. Notes that have been left at the bank for collection should be verified by obtaining a certified list from the bank. The notes and the list should be compared with the schedule and checked, but not stamped, and the footing of the schedule should be checked with the balance of the Notes Receivable account. Notice should be taken of any past due notes which are unsecured, and these should be charged back to the accounts of the makers through adjustment entries in the journal at the conclusion of the audit.

Some auditors when so authorized frame and post adjustment entries to correct errors or omissions, as these are detected in the progress of the audit, while others defer this work until the concluding stage of the audit.

Customers' notes which have been discounted and not paid are a contingent liability. A list of these should be made, and note should be taken whether or not a reserve has been provided for contingent liabilities.

If any securities, such as stocks, bonds, etc., appear in the assets, these should be carefully inspected, and compared with the schedule, the footing of which should be verified, and checked with the account or accounts in the ledger.

This concludes the preliminary steps usually taken in making an audit.

Audit General Cash Book. — The general cash book should now be audited, and as intentional errors are more frequently made in this book than in any other, the auditor should be constantly on the lookout for evidences of fraud while auditing the cash book. As a special precaution against overlooking false cash entries in the accounts, the cash items in the ledger should be checked into the cash book, which is the reverse of the usual checking procedure. Note should be taken of items which do not check, either in the ledger or the cash book, and proper investigation made.

Debit Side. — The debit side of the cash book should be audited first. The balance of the initial period should be compared with the cash balance as shown by the initial trial balance, and checked, if found to agree. The cash items on the credit side of the general ledger, including the controlling accounts, should next be checked individually into the cash book, and if there are any available vouchers for the entries, they should be examined and the entries compared with them, after which each voucher should be stamped *Audited*, to prevent it being used again for this purpose.

When the analysis method is used, the accounts in the general ledger would be analyzed on analysis sheets before the auditing of the cash book is begun, and the cash totals would be checked into the cash book.

Auditors usually stamp audited vouchers, excepting securities, notes payable, deeds, etc., with a rubber stamp, which contains the word *Audited*, and the name or initials of the auditor.

The entries for the items in the Accounts Receivable column of the cash book will remain unchecked, but the total receipts from customers during the term of audit have been checked through the controlling account, which may be accepted at this time as proof of the accuracy of the items. If any errors exist in these items, they will be found when the statements sent to customers are returned.

When other special columns are used, such as Mdse. Disct. and Sales, the items in these columns will of course also remain unchecked, but the monthly totals will be checked through the accounts in the general ledger.

The footings of all of the columns on the receipts side of the cash book should be verified for the entire term of audit.

Credit Side. — After all the general column entries and the footings of the special columns of the debit side of the general cash book have been checked, the credit side of that book should next be audited by checking the debit cash entries in the general ledger, including the controlling accounts, into the general cash book. There should be a voucher in some form, as a returned check, a receipt, or a canceled note, for every entry on this side of the cash book, excepting for the entries representing outstanding checks; and even for some of these there may be receipts or acknowledgments. All returned checks should be compared with the entries to see if they agree, both in respect to name of payee and amount, and the indorsements should be inspected, after which the checks should be stamped *Audited*. The outstanding checks should be checked from the reconciliation of bank balance against the entries representing them in the cash book, and the entries proved, when possible, by receipted invoices or other vouchers. The receipts for currency disbursements should be inspected, compared with the entries, and stamped. The collection and exchange items in the cash book, or on the collection and exchange slips, should be verified through the check book and bank book, and the totals through the general ledger. When slips are used they should be stamped.

The totals of the Accounts Payable column in the cash book are checked through the entries in the ledger, and the entries representing these totals are checked through the purchase ledger, or the voucher register, when the Voucher System of accounting is used.

Audit Petty Cash Book. — The petty cash book should next be audited, and the supporting vouchers inspected and stamped.

Inspect and Stamp. — After both sides of the cash books have been audited, these books and the general ledger and the purchases ledger, or voucher register, should be inspected for unchecked cash entries. If any exist, they should be noted and investigated. When the cash books have been audited, the auditor should stamp or initial each page to show that fact, and this should be done with every book audited.

Verify Abstract of Purchases Ledger. — Verify the balances as shown on the abstract of purchases ledger with the accounts in that ledger, or in the voucher register, checking each account found to agree, and then check the footing of the abstract with the balance of the controlling account.

Audit Purchases Journal. — In auditing the purchases journal, or invoice book (when the latter is still used as a book of original entry), or voucher register — the footings for the entire term of audit should be verified, and the totals for each month checked with the controlling account. The credit entries in the purchases ledger accounts should be supported by invoices, properly certified, and the debit entries by returned checks, by return book and allowances book, or journal, entries. And the original debit entries should be supported by proper vouchers, which should be examined.

The monthly statements from creditors will serve to verify the accuracy of the accounts in the purchases ledger, or of the entries in the voucher register. A more satisfactory method would be to check all entries for purchases, direct from the original invoices, and all credits from the books of original entries. All vouchers should of course be stamped at the time they are compared with the entries.

Audit Voucher Register. — The entries in the voucher register are supported by voucher jackets and voucher checks, and these should be compared and checked, and the vouchers stamped. The footings of the columns of the register should be verified and checked against the accounts in the general ledger. The items in the Miscellaneous columns should be analyzed and checked against the entries in the analysis book. The footings of the analysis book should be verified and checked against the footings of the proper columns in the register.

Verify Abstract Sales Ledger. — The next step to take is to verify the abstract of the sales ledger, by comparing the balances, as shown thereon, with the accounts in the sales ledger, checking each account found to agree, and then compare the footing of the abstract with the balance of the controlling account, checking the two amounts if they agree, and noting any changes if they do not agree.

Audit Sales Books. — Whether sales books or sales journals are kept, the footings for the term of audit should be verified, and the monthly totals compared with the entries in the controlling account. It is not usually practicable or desirable to verify the extensions or footings of the individual charges in the sales book, as it may be assumed that these were verified before the bills were sent out. Neither is it usually practicable to check the individual charges to the personal accounts in the sales ledger. The balances of these accounts should be checked from the statements sent to customers, when they are returned. If any are not returned, the accounts which they represent should of course be checked, but every effort should be made to have the statements returned.

Audit Return Books. — All entries in the return books, both purchase and sales, should be examined with the vouchers or supporting records, and checked against the entries in the

subsidiary ledgers. The footings should be verified and checked with the entries in the controlling accounts.

Audit Journal. — Special care should be taken in auditing the journal, as it is to this book that resort is often made to falsify the records. As now generally used, the journal contains comparatively few entries, and these should be authenticated and checked against the entries in the accounts in the ledgers. Any errors or doubtful entries should be noted and investigated. The footings for the term of audit should be verified, and the footings of the special columns checked against the entries in the general ledger.

Verify Schedules. — The schedules of assets and liabilities not already verified should now be examined. The auditor should see that the inventories of merchandise and other property have been properly O.K.'d and certified as to the fact that the property represented by the schedules has been purchased and is now on hand. Also that the merchandise stock was inventoried at prices not exceeding the original cost or current market value, whichever is the lower. The auditor should satisfy himself as to the correctness of the extensions and footings of the merchandise inventory schedules. This he may do by making random tests on the schedules: that is, by verifying the extensions and footings here and there. If correct, the total footing of the merchandise inventory schedules should be checked with the corresponding amount on the profit and loss statement, and on the balance sheet.

The accuracy of the other property schedules should be verified and checked, care being taken to see that proper allowances were made for depreciation. Any errors or omissions found in the schedules should be noted for adjustment. All accrued, but not due, assets and liabilities, and all prepaid charges (deferred charges) should be determined, and if any were omitted from the records, they should be listed and noted for adjustment.

Conclusion of Audit. — After all of the books and supporting records have been audited, as heretofore explained, the books of original entry should be inspected to see if all entries requiring to be checked, and all footings, are checked. Note any errors not previously noted, and investigate the same. The accounts in the sales ledger should be examined to see if these have all been marked " correct," to show agreement with the statements sent to customers, and to note any differences. The purchases ledger, or the Vouchers Payable entries in the voucher register, should be examined in the same way, and any errors noted.

The accounts in the general ledger should be inspected, and refooted for the term of audit, and any errors noted. Verify the trial balance by checking each amount against the corresponding account in the ledger.

For the purpose of rating the accounts in the sales ledger into the three classes, "good," " doubtful," and " bad," the auditor may obtain assistance from the credit man, or some member of the firm, or officer of the corporation; but he should use his own judgment in making the ratings.

Adjustment Entries. — If errors were detected during the progress of the audit, these should now be adjusted to bring the books into agreement with the facts, as shown by the auditor's balance sheet. This is done by framing proper entries in the journal and posting them to their respective accounts. The data for these adjustment entries will be found in the auditor's notebook and on his working papers.

Preliminary Trial Balance. — A preliminary trial balance should now be taken of the general ledger, as of the terminating date, including adjustment entries; also, abstracts of the purchases and sales ledgers, and these should be compared with the controlling accounts.

Profit and Loss Statement. — A trading, profit and loss statement, if a trading concern, and a manufacturing, trading, and profit and loss statement, if a manufacturing concern, should now be made out, and this should show the trading activities, or manufacturing and trading activities, the revenues and expenses, the true net profit or net loss, and the disposition of the profit, or the adjustment of the loss. Proper schedules to support the statement should also be made.

Balance Sheet. — The balance sheet should show in condensed form the actual assets, liabilities, and present worth, or capital and surplus, or deficit, of the concern on the terminating date, and should be supported by proper schedules.

If an individual or partnership concern, the assets and liabilities are usually arranged on the balance sheet in the order of current and fixed, and the proprietor's or partnership items are placed after the liabilities. If a corporation, the assets and liabilities are stated in the order of fixed and current, and the capital stock is placed before, and the surplus after, the liabilities. If there is a deficit, it is shown after the assets.

Auditor's Report. — After the audit has been concluded, the statement, schedules, and balance sheet have been made out, and the books are in agreement with the same, the auditor should make a statement to his client of conditions as he found them. This is called the " auditor's report."

The auditor's report usually contains a balance sheet, styled " Exhibit A," and supporting schedules, which are styled, " Exhibit A — Schedule 1," " Schedule 2," etc.; a Profit and Loss statement, Exhibit B, and schedules; and a copy of the adjustment entries, Exhibit C. If the report is unqualified, the balance sheet is certified by the auditor.

The following is the usual form of auditor's certificate attached to the balance sheet:

We have examined the books of the Wilson Leather Company for the year ending Dec. 31, 1910, and we certify that in our opinion the above Balance Sheet sets forth the true financial position of the company on that date, and that the relative Profit and Loss account is correct.

54 William St., New York,
Feb. 21, 1911.

Price, Waterhouse & Co.
Chartered Accountants.

If the report is qualified, the balance sheet is certified subject to the qualifications set forth in a separate statement, Exhibit D, and " This exhibit is subject to the qualifications set forth in Exhibit D " is written at the bottom of the balance sheet. Exhibit D contains comments on the examination, and states the reasons why the auditor qualifies his certification as to the correctness of the assets and liabilities shown in his report. It also frequently contains suggestions for the improvement of the system of accounting in use by the client.

EXERCISES

The following exercises are intended to give the student such practice in auditing as will enable him to thoroughly comprehend the principles of the subject, and to become familiar with the usual procedure in making a commercial audit. While the schoolroom has its limitations in matters of this kind, as compared to the business office, the books of student bookkeepers provide good " cases " for the student auditor, and he should perform the work with the same care he would use if in actual practice.

For all working papers, notebooks, and reports, loose paper may be used. If no rubber stamp is available, the student will write *Audited* and his initials where the stamp would be used.

1 Audit the books of Taylor, Wood & Co. for August or for September (whichever your teacher may direct), which will represent a fiscal period.

Apply to your teacher for the books and supporting records of some other student, and having obtained them, read again "Preparation for Audit," page 312. Next proceed with the auditing in general accordance with the instructions given in "Order of Procedure," page 312, and following paragraphs. You will not be required to send statements to debtors, or requests for statements from creditors. Only such vouchers as would be on hand in actual business should be used in making your audit. Separate the others from these.

You are at liberty to use either the straight checking method or the analysis method of auditing in performing this work. If you decide to use the analysis method, prepare an analysis sheet as one of your working papers, and analyze the accounts in the general ledger. Verify the original entries by the vouchers, and check the totals of the columns of the books with the totals of the corresponding columns on your analysis sheets.

Make careful notes in your notebook of any errors which you detect, but do not make any corrections in the books. After completing your audit, make a report including the necessary exhibits and schedules. In making Exhibit B, show the results in condensed form only, and give the details on the schedules. That is, show the gross revenue, the operating expenses, and other deductions from revenue, the net profit, and the disposition of the same.

Hand the report, exhibits, and schedules, together with the books and the vouchers, to your teacher.

2 Audit the books of the W. J. Hilton Shoe Company for December, which will represent a fiscal period.

Apply to your teacher for a set of books and accompanying vouchers, and proceed as instructed in No. 1. Strive to improve on your previous effort, and take special pains with your report.

Make Exhibit A in consolidated form. That is, state the different assets and liabilities in totals, and when necessary support by schedules. This applies particularly to the current asset inventories, and also to the Accounts Receivable, Notes Receivable, etc.

In making Exhibit B, show gross sales, returned goods, net sales, cost of net sales (support by Exhibit B, Schedule 1, which will show the Manufacturing account in detail), gross profit on trading, and state the percentage on sales and on cost. Show also the deductions for selling expenses, total selling expenses, and percentage, based on the gross profits; the deductions for the general administrative expenses, total of the same, and the net profit on trading.

Hand your report, together with the books and vouchers, to your teacher.

QUESTIONS

1 Explain what is meant by (*a*) "auditing," (*b*) "audit," (*c*) "auditor."

2 Of what is C. P. A. the abbreviation?

3 Explain how a person may become a C. P. A. in your state.

4 What is the principal object of an audit?

5 What is meant by "term of audit," and what may it be?

6 What are the names of the first and last dates of the audit term?

7 Name the different kinds of audits as regards (*a*) time when made, and (*b*) classes of business or activities.

8 What are the duties of an auditor?

9 What is meant by an "auditor's working papers"?

10 Name and explain the errors the presence of which an auditor should detect, or the absence of which he should prove, in making an audit.

11 State what preparation should be made for an audit.

12 State briefly the steps to take in making a commercial audit.

13 How is the cash proved when the audit is begun some time after the terminating date?

14 What book or books should an auditor examine with special care for the detection of intentional errors?

15 What evidence should an auditor generally require that the original entries are in accordance with the facts?

16 How do auditors indicate that they have examined an entry? A voucher?

17 What should be done when an error is detected in making an audit?

18 How are the books brought into agreement with the facts, as found by the auditor?

19 What does the auditor's report contain?

20 If the auditor is unable or unwilling to certify to the accuracy of the balance sheet, how may he indicate that fact?

APPENDIX II

TRADE ACCEPTANCES

Trade Acceptance. — A trade acceptance is similar in form to an ordinary acceptance, although differing in character, the purchaser " accepting " the drafts of the seller for goods actually delivered in accordance with terms as arranged at 30, 60, or 90 days' sight. It shows upon its face that it is to cover the purchase of such goods. Trade acceptances may be used by merchants, manufacturers, or producers, selling on terms of 30 days or longer, to finance transactions in any and every stage from production to the marketing of goods.

Definition. — As defined by the Federal Reserve Board: — " A trade acceptance is an unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay at a fixed or determinable future time a certain sum in money to the order of a specified person. The bill must be drawn by the seller on the purchaser of goods sold and accepted by such purchaser."

The Use of Trade Acceptances. — The use of trade acceptances is increasing A few years ago there were not many American business men who understood what was meant by the term " acceptances." They rarely were used in general business here, although in England and continental Europe for years they have been almost the only instrument of credit used in ordinary business transactions. A man buys a bill of goods from a wholesaler, and then the wholesaler executes a draft on the buyer, who writes across the face of it " Accepted " and affixes his name. This draft then becomes a negotiable two-name paper which the wholesaler may retain until maturity if he wishes, or else take it to his bank and have it discounted at a rate usually considerably lower than that asked for single-name paper. The " acceptance," as the indorsed draft is called, is an order to pay and *prima facie* evidence of an obligation. It is a method of settling a business transaction that is infinitely superior to the " open account " system, which until recently was almost the only method of settling accounts used by American business men.

Previous to about 1860, acceptances were used to some extent in this country, but their use was discontinued. With the establishment of the Federal Reserve system, however, and the provision in the law making it legal for the banks to take acceptances for rediscount, there began an immediate agitation among bankers, credit men, and others interested in economic welfare for a return to the use of acceptances here.

Advantages of Trade Acceptances. — Those who advocated acceptances instead of the old "open account system" have pointed to the obvious disadvantages of the latter system by which the seller must carry the financial burden of the buyer, thereby tying up a vast amount of capital that might be otherwise utilized. Credit under the open account system is for an indefinite instead of a specified period. Collection is uncertain and at times impossible. Hence they pointed to the fact that such accounts do not represent "quick" assets, as invariably a large dealer must borrow money on his own notes at high interest rates to discount his own bills, and it is impossible ordinarily to discount open accounts for more than 50 per cent of their book value.

The old system is becoming inadequate to meet the demands of future business conditions, while the "acceptance" system is so simple and yet so adequate that there is a broad demand for its wider use. Consequently a large number of business houses have now undertaken to have their transactions settled by means of these useful credit instruments. The open account system is of course still in use, and probably will be for years.

The waste in bad accounts in this country is enormous, and the office overhead cost of the open account system undoubtedly is much heavier than that of a system where acceptances are generally used. Both of these elements of expense can be greatly reduced as under the older method they act as a drag on business. The main advantage, however, in the "acceptance" system, which is not always recognized, is that a large part of the burden of business may be shifted to banks since they are best able to carry it. Accounts instead of being a dead weight upon the seller become a readily convertible liquid asset at a low rate. The banks can discount them, and they may be rediscounted at the Federal Reserve banks and thus become the basis for an expansion of the currency as occasion and conditions may demand.

Illustration and Creation of Trade Acceptance. — Seller & Co. of New York, N. Y., sells to Purchaser & Co. of Boston, Mass., a bill of goods to the amount of $4370, on terms of 60 days' net, with a discount privilege of 2 per cent in ten days. When sending the invoice for the goods, Seller & Co. include with it a trade acceptance properly filled out and signed by themselves, and corresponding to the invoice as to amount and date of maturity.

Purchaser & Co. may, if they wish, pay bill within the cash discount period. In that case there would be no need of their "*accepting*" the trade acceptance. If, however, they desire to

TRADE ACCEPTANCE

No. 32 New York, N. Y., Jan. 17, 1919 $4370.00

At ninety days after date pay to the order of OURSELVES

FOUR THOUSAND THREE HUNDRED SEVENTY 00/100 Dollars

The obligation of the acceptor hereof arises out of the purchase of goods from the drawer, maturity being in conformity with original terms of purchase. The drawee may accept this bill payable at any bank, trust company or banker's office in the United States which he may designate.

To Purchaser & Co.

Boston, Mass.

Due April 16, 1919

ACCEPTED Jan 28 1919 (Date)

Payable at Liberty National Bank (Designation of bank)

Location of Bank Boston, Mass. (Name of city or town where bank is located)

Purchaser & Co. (Signature of acceptor)

Seller & Co.

take the full credit term allowed, they may "*accept*" the trade acceptance by writing or stamping on its face the words "*accepted*," the date and the place of payment, usually their local bank.[1] They then sign it and return it to Seller & Co.

It may be assumed that, before signing the trade acceptance, Purchaser & Co. have received the merchandise and have assured themselves that it checks up properly with the invoice. On the date set for payment they will be expected to have on deposit at the bank indicated by them as the place of payment sufficient funds to pay the acceptance on presentation.

When the signed acceptance is received by Seller & Co. they may keep it until a short time before it falls due and then send it to their bank for collection. If they should need funds in the meantime, and do not wish to borrow on their own note, they may indorse Purchaser & Co.'s acceptance and take it to their bank for discount, or they may sell it in the open discount market.

If Purchaser & Co.'s acceptance has been discounted at a bank, the bank may retain it in its portfolio until maturity, or may sell it to the Federal Reserve bank in their district.

[1] Payment should be made at a bank in the community where the business of Purchaser & Co. is located. If at any other place, for example, a bank in Seller & Co.'s community, special understanding of such arrangement must be indicated in the body of the acceptance when it is signed, otherwise it may not conform to the Negotiable Instruments Act.

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